

THE APPLICATION LEVEL OF THE STRATEGY OF CONTROL FOR MANAGEMENT IN PUBLIC INSTITUTIONS

Shaqir Rexhepi

Agricultural University of Tirana, Faculty of Economy and Agribusiness, Tirana, Albania

Abstract

The study on the functioning of the control system in the Public Institutions is very important for the level of functioning on a budget, execution, and financial reporting. This is interrelated with transparency, accountability, responsibility, over the segregation of duties about standards of democratic development. Therefore, this management are required to be developed as a process also in the state of Kosovo based on the Constitution and applicable laws. To achieve effectiveness and to increase the quality of transparency of public finance in Kosovo, there is a constant need for improvement of fair and transparent reporting of public money, and this is greatly enabled by the independent audit and by strengthening the internal control system in the Public Institutions.

Key words: financial auditing, control system, public institutions, management

1. INTRODUCTION

The primary goal of this paper is to address accountability, efficiency, transparency and performance on the management of finance, to evaluate and implement the principle of operation of the control and audit in public institutions of Kosovo. In recent years, our country is met with many challenges that have affected the internal control system malfunctioning in the Public Institutions. Inappropriate performance of management control system with the spread of corruption both have become very disturbing negative factors that adversely affect the country's society, such as position, corruption, fraud, nepotism and lack of accountability.

Improving levels of management running properly by sharing experiences to variety of developed countries with different practices, for example, the model of financial development to formulate activities and objectives with suitable alternatives in the context of an effective financial system and corporate governance across Public Institutions.

2. RESEARCH METHODOLOGY

The methodology used is comprehensive and substantial, there are researches and scientific methods applied for effective internal control systems in the Public Institutions as well as management, analytical and comparative methods, following the surveys carried out. A good way was paved for functionalizing key mechanisms in Kosovo, where one is aware that Kosovo is a new state in transition as a new democratic administration following the European Union and worldwide democratic standards.

The methodology used is based on the analysis of resources, tables and figures based on time series as well as theoretical and practical researches and analysis, from public sector external and internal reports. The questionnaires are applied based on the methodology of scientific research, which has made the source of information even more efficient for the real functioning of internal control and audit for the fair management of public money by Public Institutions.

3. LEVEL OF FUNCTIONING OF CONTROL SYSTEMS

The implementation of laws remains a challenge. According to duties defined by the Rules of Procedure, Parliamentary commissions also conduct the oversight of the implementation of legal norms. By the end of August, Council for the Economic Development, Infrastructure, Trade and

Industry has managed to close this process, and to present to the session, a report with recommendations for this monitoring, although the majority of council have foreseen monitoring of one or two laws in their plans. Compared to sixth months of the previous legislature, planning seems to be more progressive. However, it is by far, far from the needs of the Assembly to undertake a more meaningful role for a system of functional control of the implementation of laws by competent institutions.

4. RESPONSIBILITY OF MANAGEMENT AND EFFICIENT STRATEGY

The Managers are responsible for ensuring that the employees, systems, supervision, and budget are sound applicants of the strategy. They should make this in a long term, functional and manageable ways, there should be operable segregation of duties with the workforce and external associates. The communication system towards employees is the driver and mechanism of an organisation.

The strategic management in the Institution allows for responsible employees to make decisions with the approach to solve the problem with external factors.

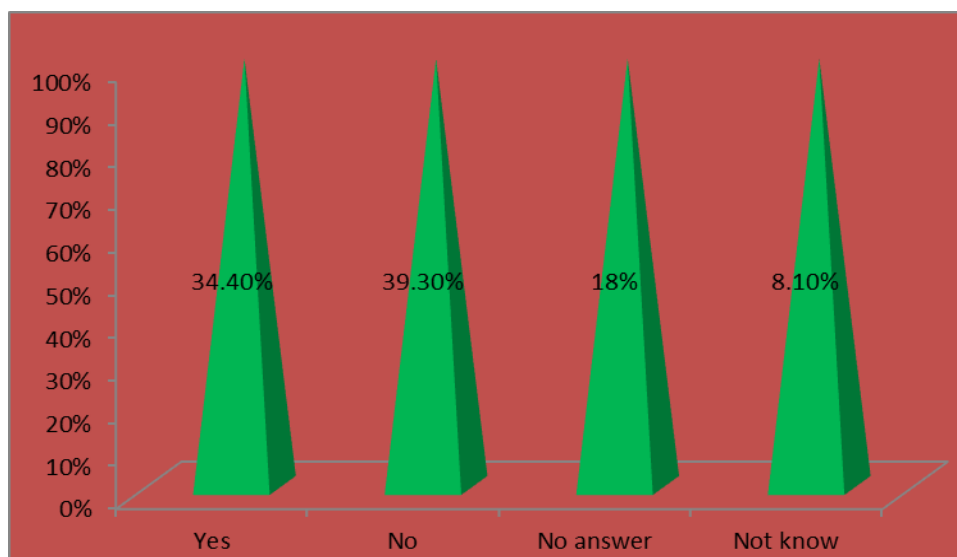


Figure 1. Level of segregation of work duties

Source: own research of the author

According to the results by the respondents presented in figure 1, we have come to the conclusion that the Public Institutions do not have possession of a proper segregation of duties, where 39% are of the opinion that there is a conflict of interests for their work activities (Shaqir Rexhepi, Research for functioning of the internal control system in the Public Institutions in Kosovo, June 2013 to July 2014).

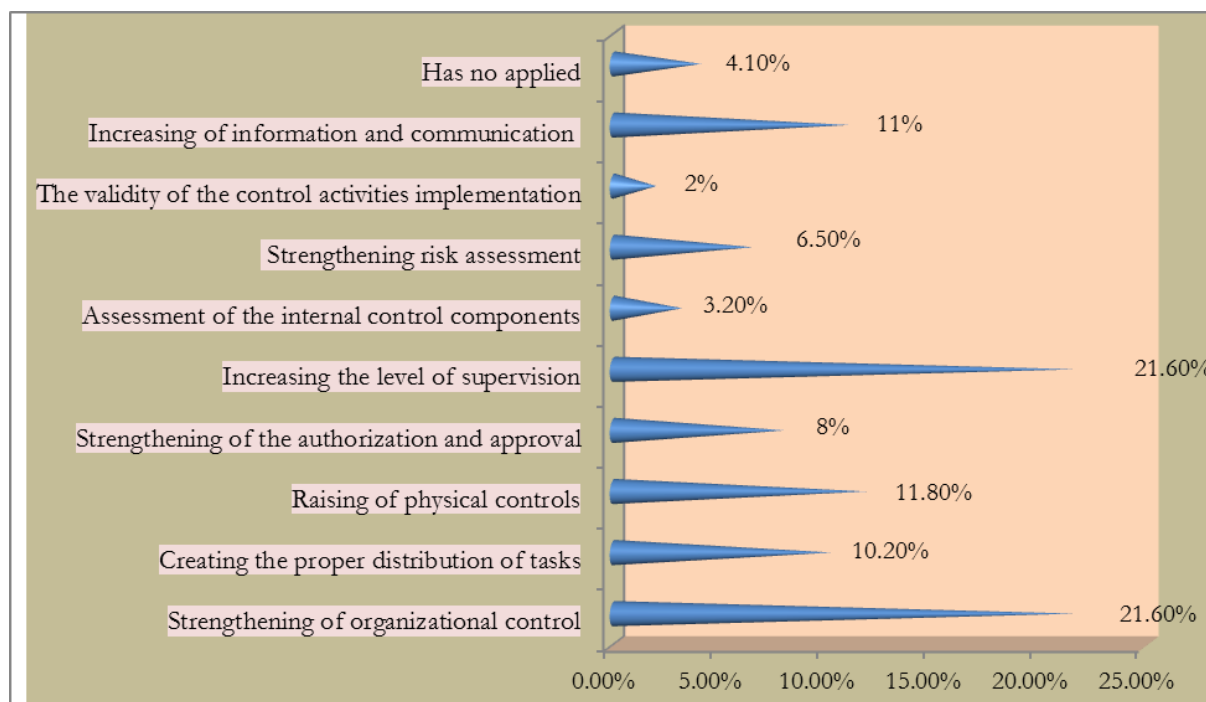


Figure 2. Level of functioning of internal control system

Source: Non-Government Organizations, Progress Report, October 2010, p. 13, Pristina, Kosovo

While among the main factors for non-functioning modality that Institutions have not been able to strengthen sufficiently internal controls are (Non-Government Organizations, Progress Report, October 2010, p. 13, Pristina, Kosovo):

- Failing to create proper segregation of duties is assessed by 10%
- Failing to improve authorization and communication is 8% and
- No information and communication are 11%

5. TRANSPARENCY ON THE LEVEL OF SYSTEM FUNCTIONING

The Assembly of Kosovo continues to be partly transparent concerning its work. The sessions of the Assembly of Kosovo continue to be broadcasted by Radio and Television of Kosovo (RTK) only until 17 o'clock. Despite the fact that long broadcasting of plenary sessions would impact the programming scheme of RTK, taking into consideration that issues discussed in the Assembly of Kosovo are of general interest to citizens, RTK should continue to broadcast session of the Assembly of Kosovo also after 17 o'clock. The plenary sessions of the Assembly of Kosovo continue not to be livestream for the local organization of civil societies, while are livestreamed for international organisations and institutions only, such as; OSCE, NDI and ICO (Non-Government Organizations, Progress Report, October 2010, p. 13, Pristina, Kosovo).

6. IDENTIFICATION AND ASSESSMENT OF RISKS

The fundamentals for the development of this plan are the risks identified by Internal Audit Units in Ministries and other public sector institutions as well as the assessments of the General Auditing Department found by monitoring and oversight mission of auditing structures. The information collected and analysed also defines the coverage of audits for the period 2010- 2013.

The draft of this plan is focused exactly on the prioritisation of risks identified, and in the meantime, we try to make sure that there is a sufficient number of staff to conduct audit activities in the entire public sector.

Although the financial plans have included the key systems risks, the areas to be the subject for auditing will also include the provision of the objective assurance for a wider range of risks, which have not been considered as key risks and which have been handled by audit units of the public entities. In the risk assessment, the following criteria have been taken into consideration:

- Main institutions, and other organisation,
- Financial reporting requirements,
- Legal and regulatory framework,
- Control environment,
- Monetary value,
- Financial presentation,
- Internal risk,
- Insufficient coverage with auditing in the past.

Further, we present detailed information on the risks identified, while also trying to make their prioritisation, based on the two main elements: the possibility of occurrence and impact, that these risks can be assessed in the achievement of objectives.

Main risks identified	Total risk	Possibility of occurrence	Impact
I. Non-functional and inefficient internal controls system	High	Medium	High
1. Complex and numerous controls	Medium	Low	Medium
2. Control systems	High	Medium	High
3. Poor direction systems	Medium	Low	High
4. Lack of regulations, procedures, and written rules in public entities	Medium	Low	Medium
5. Presentation of new Information Technology systems (ORACLE for Treasury system or accounting))	High	Medium	High
II. Lack and non-functioning of internal auditing	High	Low	High
1. Low level of outreach of senior management on the importance and role of IA in institutions	High	Medium	High
2. Lack of internal audit structures	High	Low	High
3. Human and material resources for the correct functioning of IA.	Medium	Medium	Medium
4. Incompetent and noncompliant functioning with LIA and Manual of Procedures	High	Medium	High
5. There is no segregation between the IA function and the financial inspection.	Medium	High	Medium
6. Lack of exchange of information among the auditing structures.	Low	Medium	Low

7. Low level of information and cooperation with Local Governing Units.	Medium	Medium	Medium
III. Poor financial management of public funds	High	High	High
1. Clear and implementable procedures for the utilisation of the economy efficiency and effectiveness.	High	Medium	High
2. Poor asset management.	High	Medium	High
3. Unclear segregation of functions of authorisation, verification and payments.	Medium	Low	High
4. Irregular payments system.	Medium	Low	High
5. Insufficient procedures and rules for safeguarding and administration of property.	Medium	Low	High
6. Insufficiency of funds for the achievement of objectives set by management.	High	Medium	High

Table 1. Main risks planned

Source: Consolidated Strategic Plan, General Auditing Department 2010-2013 pp.7-10

7. INFORMATION, CONTROL AND AUDITING SYSTEM

The system usually has not been used for the development of such traditional applications, such as accounts receivable, payroll list, or inventory management, where inputs and processing are clearly known and defined (The Institute of Internal Auditors, International Standard for Practice of Professional Auditing, October 2012 p.4. the USA).

Requirements, stage, and analysis include full and detailed meaning of the current, identification of areas which need modification to resolve the problem, detection of the user. Managerial requirements should have the fair idea related to the development means of different systems based on main activities.

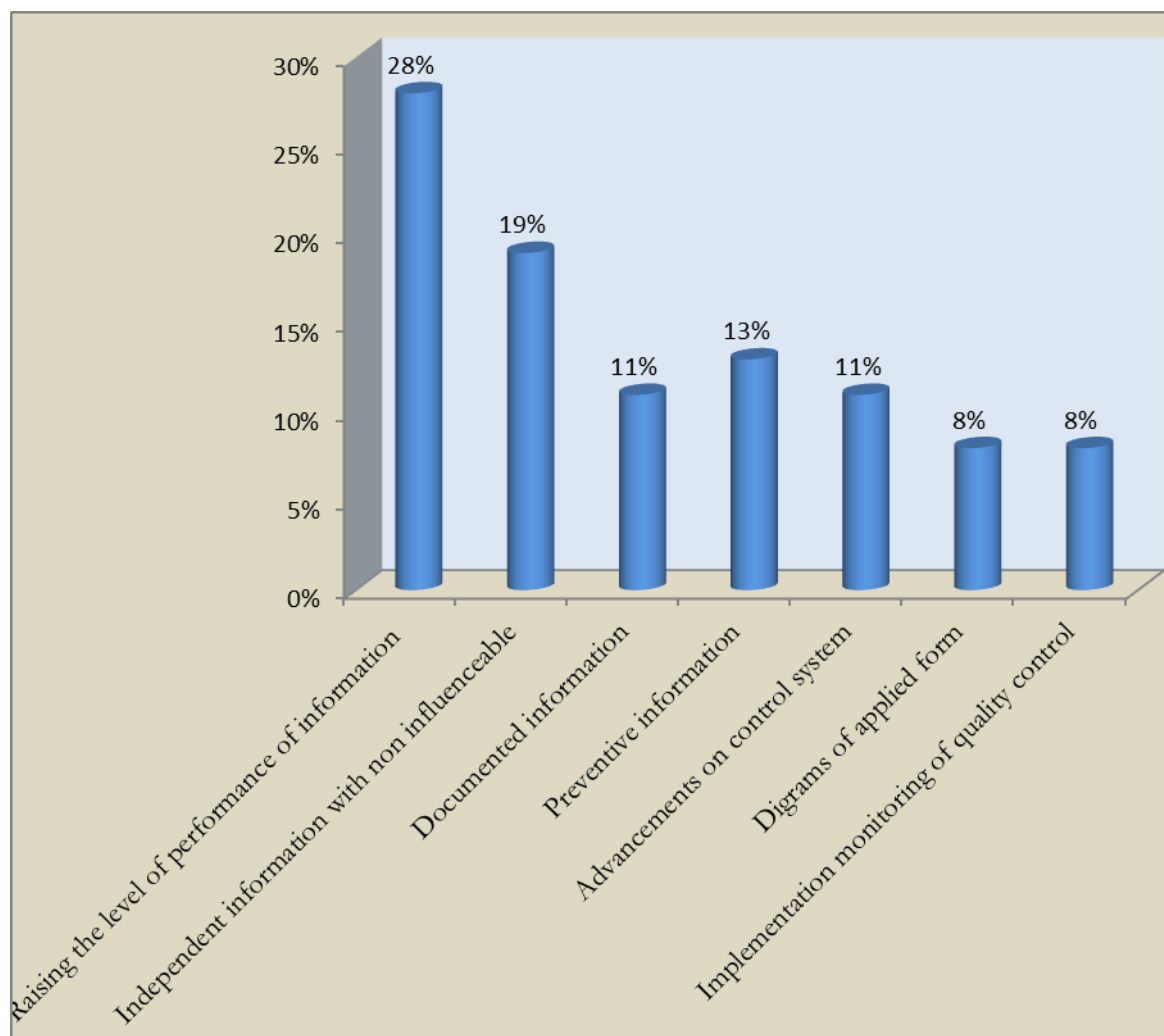


Figure 3. Assessment of Institutions for creating an efficient management structure

Source: own research of the author

Regarding the modality of evaluation, as of on what level have the responsible people created an effective management structure (Shaqir Rexhepi Research on the advancing and functioning of internal control system in Public Institutions of Kosovo, June 2013 to July 2014). According to figure 3, there are some modalities of answers defined, in eight different domains. Based on respondents, 28% have declared themselves that the increase of the level of information is at the highest level, while 8% have found that the monitoring of the quality of the internal control system is at a very low level, and 11% result in the prevention of information impacting the decrease of misuse in finance.

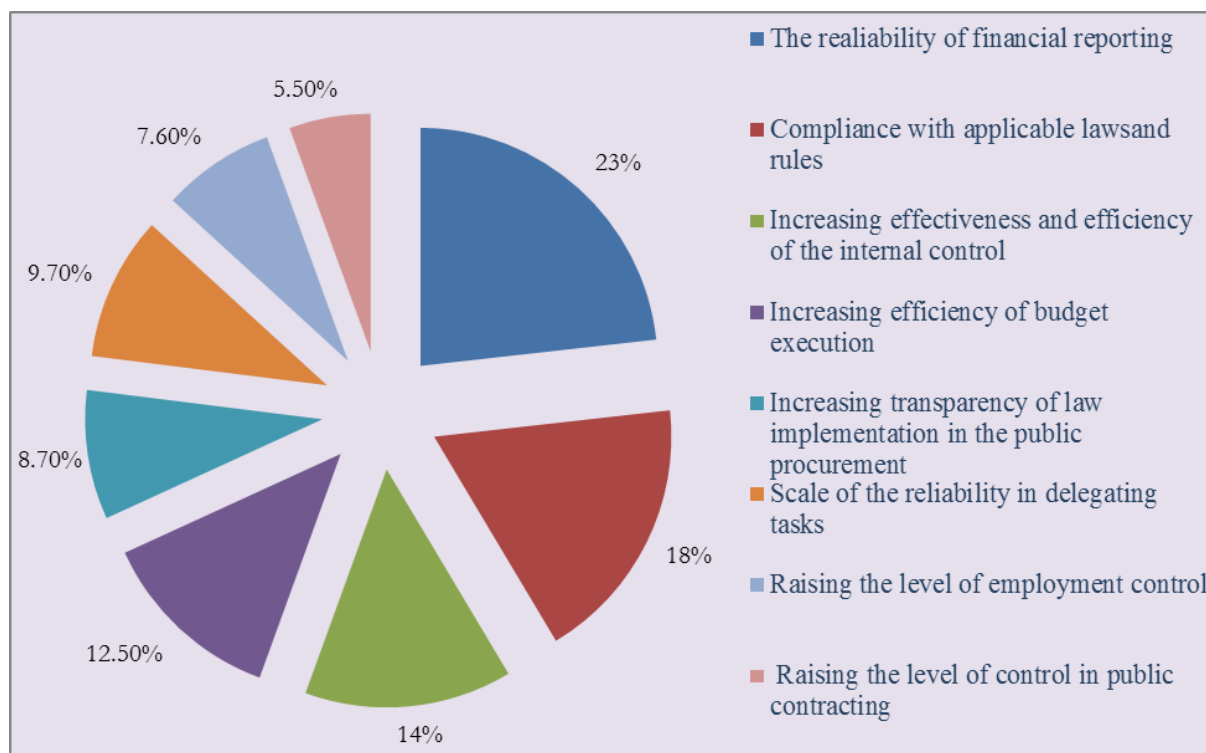


Figure 4. Assessment of Management of Institution for the level of optimal increase in control activities

Source: own research of the author

According to analyses and results received by respondents and presented in figure no. 4 for the assessment, whether management has made any evident increase in the efficiency of optimal control, is the fact that, the control of the situation for reliability is shared by:

- Reliability in financial reporting by 23% and
- Compliance with applicable laws and regulations by 18%

While the fact remains concerning the decrease of actions, where management has not increased the level of control for public contracting and evaluation of situation in the percentage by 5.5%, and no sufficient actions have been taken to increase transparency in implementing the Law on Public Procurement, where a very low percentage with only 7.6%.

7.1. Audit limits

- Practical assurance (in reality) of functional independence and in some cases also organisational of internal audit coming from the wrong conceptualisation of the role of internal auditors in senior management of public entities as well as their intervention to the auditors' judgment and opinion.
- Small degree reaches the responsible people which do not consider IA as an integral part of it and not as a consultancy of support for the assessment and improvement of internal control systems in governing, but rather as a means in their hands (senior management) to punish and to take measures.
- Segregation of the internal auditor role from the traditional role of financial inspection. Use of internal auditing in compliance with the law.

- Insufficient degree of professional knowledge of auditing structures, implying difficulties in finding and engaging trained staff with abilities and skills to respond to requirements of PIFC (Consolidated Strategic Plan, General Auditing Department 2010-2013 pp.7-10, Tirana, Albania modern system (Consolidated Strategic Plan, General Auditing Department 2010-2013 pp.7-10, Tirana, Albania).
- Difficulties in exchanging experiences and including the as part of the whole entire system without violating engagements in the framework of decentralisation of local authority or independence of other institutions.
- Failing to completely secure auditing resources by management (specific for local governance units and prefectures).

7.2. Record keeping of high-risk findings

During the research, we have found some deficiencies in the development of system functionalization, segregation of duties and the way how the internal control system is managed, such as.

- Non-functional and inefficient system of Internal Control,
- Failing to strengthen institutions and communication,
- Non-information and communication,
- Not sound system in cash management,
- Lack of functioning of internal auditing,
- Short degree of outreach of senior management on the importance and role of IA in Institutions,
- Insufficiency of human resources for the correct conduct in functionalizing the system,
- Inefficient and noncompliant of the actions with the Law and Manual of Procedures,
- Insufficient credibility over financial reporting,
- Insufficient compliance of the legal rules and applicable regulations.

8. CONCLUSIONS

This material has analysed the latest developments of functioning of the internal control system, with the main focus on the rate of implementation of policies and procedures for management and operating of public funds.

Special conclusions on the rate of system functioning:

- lack of functioning of mechanisms whose mission is to fight against corruption;
- in-depth analysis of causes for the increase of liabilities,
- the cooperation with independent institutions is not functioning on the proper level;
- there is a lack of clarity for financial profile between Ministries and Agencies;
- there is a high level of failure by the Offence Courts to treat cases for non-declaration and origin of the wealth of senior officers;
- management of procurement procedures in the electronic form is missing, thus impacting the transparency of public funds;
- the internal auditor independence does not exist at the proper level;
- adequate operational plans are missing for addressing recommendations for implementation;

- deficiencies in the implementation of procedures, and lack of internal instructions.

9. RECOMMENDATIONS

Based on analyses and assessments for the level of management and functioning of internal control system in Public Institutions, we are presenting the following recommendations:

- Public funds should be managed based on priorities for the fair and transparent management,
- Allocation of funds should be done based on economic and efficient criteria,
- Services should be reliable, and transparent without partisan and religion distinction, etc.,
- Create overall antifraud measures,
- Apply adequate systems for the successful management in Public Institutions,
- Develop human resources and create sound capacities in relevant areas of responsibility,
- Create an efficient system of the segregation of duties and updating for functionalization of policies, procedures,
- Create modalities in order for programmes to achieve the intended results,
- Create a cooperation climate for the resolution of problems between the managerial and operating staff.

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