

REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Public Internal Financial Control Department -
Central Harmonization Unit

FINANCIAL MANAGEMENT AND CONTROL MANUAL

Skopje, February 2016

INTRODUCTORY NOTE

Leading people in the public sector, meaning ministers, mayors, appointed officials and managers have the main responsibility for the operation in the public sector in accordance with the laws and standards that they need to ensure proper management of public funds in accordance with laws and principles of economy, efficiency and effectiveness.

Disciplined, responsible and sustainable long-term fiscal management is imperative in times when is more highlights the limitations of the budget. In those circumstances even more emphasized the need for effective financial management and control.

Public sector managers need to be aware of its responsibility for the entrusted assets, and responsibility to provide adequate efficient financial management and control within their institutions. It often requires a proactive approach to governance, except lawful and proper operation it is necessary to provide greater economy, effectiveness and efficiency. More active approach to public sector management is a necessity due to the provision of long-term fiscal sustainability, but also because of Macedonia's readiness for future membership in the European Union. As a Member State of the European Union will have the opportunity to use the IPA funds, but how much will really use the possibilities offered will depend primarily on our ability to successfully manage these funds.

This manual is intended for budget users to help further development of financial management and control, primarily aimed at proactive management approach supported by the development of managerial accountability.

This manual is prepared by the Public Internal Financial Control in the Ministry of Finance which is the Central Unit for harmonization of financial management and control.

Handbook for financial management and control will be posted on the website of the Ministry of Finance www.finance.gov.mk and will be updated and improved.

Sincerely,

No. _____
_____ 2016

MINISTER OF FINANCE
Mr. Zoran Stavreski

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FOREWORD

Here is a special edition of Financial Management and Control Manual, intended for the public sector managerial structures and purposed to help them understand what is the financial management and control system all about and what does it cover, while focusing them towards key areas in which they are expected to get actively involved.

A key feature of the financial management and control development in recent years refers to a high level of harmonisation and interconnectedness with the developments in the budget system, and the awareness of the fact that any system of financial management and control should be developed as an integrated system, which brings numerous areas of operations.

By amendment to the Budget Law of January 2008 was imposed obligation to budgets carried out in accordance with the principles of inclusiveness, specificity, economy, efficiency, effectiveness, transparency and sound financial management, i.e. budget resources manage legal, dedicated, purposeful and effective.

By amendment to the Budget Law of December 2012 was established linking strategic and budget planning, that obligation was introduced budget users prepare three-year strategic plan that includes programs and activities to achieve the strategic priorities of the Government of the Republic of Macedonia as well as the objectives and priorities of the budget user for that period.

Thus it was created the legal framework under which the focus is no longer only the questions "How we spend?" and "Is it within the planned funds?" but the questions "For what and how we spend?" and "What results and effects we achieve?" and the responsibility of managers in the public sector for the way of managing resources and results.

This approach raised the question about - "How and in what way to develop financial management and control systems?"

All this combined sizably contributed to shifting the focus of practical implementation of financial management and control from the initial, narrow orientation to business processes only, towards considerably broader areas of greater importance for financial management and control, including: strategic planning, programming, linking the objectives with budget resources, arrangement of organisational structures and the manner for establishing authorities and accountabilities for the objectives and budget resources, the development of risk management, the development of ex-ante and ex-post control mechanisms, especially in the budget cycle processes, the development of the accounting systems and the like.

This special edition of Financial Management and Control Manual which is substantially aligned with already issued Financial Management and Control Manual from December, 2010.

1. INTRODUCTION TO FINANCIAL MANAGEMENT AND CONTROL

1.1. Definition, Scope, Purpose and Characteristics of Sound Financial Management and Control Systems

Definition

Financial management and control is defined as a: "Comprehensive system of internal controls put in place by and under the responsibility of budget user heads, which, by way of managing risks, provides reasonable assurance that budget and other resources will be used in a regular, ethical, economical, effective and efficient manner towards the achievement of objectives.

Also, the financial management and control is defined as "a system of policies, procedures and activities established by the head of the entity in order to provide reasonable assurance that the entity's objectives are achieved"¹ This means that in accordance with laws and regulations will safeguard resources against loss, misuse and damage.

Adequate systems of financial management and control may be said to have been established once the managerial structure plans and organises the operations in a manner that provides reasonable assurance that risks are being managed successfully and that budget resources (including all sources of funding) are being used regularly, ethically, economically, effectively and efficiently in the achievement of objectives.

In simple terms, financial management and control may be defined as a system which directs and controls the financial effects of budget user's operations in a way that makes them supportive of the achievement of objectives.

The Scope

Financial management and control covers all business transactions, especially those relating to:

- revenues/receipts;
- expenses/expenditure;
- tendering procedures and contracting;
- recovery of unduly and illegally spent budget resources;
- assets and liabilities.

Financial effects lay in the background of any decision or an activity, i.e. anything that happens in the operations of an institution. The only question is whether they may be seen directly or indirectly, sooner or later.

A system of financial management and control encompasses overall operations and permeates the entire organisational structure. However, the focal point of financial management and control deals with managing and controlling revenues, expenses, assets, liabilities, tendering procedures and contracting, as well as the recovery of unduly and illegally spent budget resources.

¹ Article 3, paragraph 1, item 3 of the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia" no. 90/2009, 188/2013 and 192/2015)

The reason is that these very areas (status of revenue, expenses, assets, liabilities, signed contracts, and their subsequent implementation) are the ones in which ultimate financial consequences of the operations may be seen. That is, these areas show the impact of the activities taken or those failed to be taken, the decisions put into effect, the investment projects executed, etc.

Against this backdrop, especially important areas for financial management and control include those related with budget (or financial plan) planning and execution, accounting, reporting and public procurement. These areas are at the same time key in the realm of fiscal responsibility.

Importantly, financial management and control **does not and may not fall under the remit of finance units only**, it rather **constitutes an integral part of managerial accountability at all levels of management**.

Financial management and control refers to managerial accountability in the areas of:

- planning;
- programming;
- development of financial plans and their execution;
- accounting and reporting;

in order to achieve the set objectives and safeguard resources against loss, inadequate use and fraud.

The Purpose

The purpose of financial management and control is to ensure:

- running the operations in a regular, ethical, economical, efficient and effective manner;
- the alignment of the operations with laws, regulations, policies, plans and procedures;
- the safeguarding of assets and other resources against losses caused by mismanagement, undue spending and use, as well as against irregularities and fraud;
- reinforcement of the responsibility for a successful achievement of the set objectives;
- timely financial reporting and monitoring of performance results.

It is important to emphasize that the efficient systems of financial management and control applying the above will ensure a quicker and easier adjustment to changed operating circumstances, without necessarily requiring additional budget resources.

Core features of sound financial management and control systems

The core features of sound financial management and control systems² include the following:

- “value for money” management;
- managerial accountability at all management levels;

² The English phrase “sound financial management and control” may be translated in Macedonian as high quality or good financial management and control system.

- a systematic approach to and view of controls.

“Value for Money” Management

One of the fundamental properties of sound financial management and control systems deal with managing the operations applying the “value for money” principle.

The “value for money” type management should lead to meeting the quality standards in rendering services to the citizens and in other activities in which the institutions engage, while making sure that this is done in an economical, efficient and effective manner, that is to say, to spend the least possible amount of financial resources in rendering a good quality service.

This requires the public sector management structures to apply hands-on management of public activities and asking the following questions of themselves:

What are we getting back for the financial resources invested?

May we render the same level of service and spend less financial resources?

How can we render the best quality service using monies made available at a given point?

Such an approach to management requires far more detailed information on costs and revenues. This, in turn, rises a series of questions that the public managerial structures should answer. For instance, these include:

- What do services, activities and processes cost and what is the cause of such cost?
 - How do new investment influence the costs and revenues?
 - How can changes in the way services are being used or changes in the way operations are organized influence costs and revenues?
 - What performance changes are likely to take place in the medium-term?
 - What is the cost of alternative service rendering and performance modes?
- and other similar questions of sort.

The above shows that hands-on management requires adequate management information systems, which are founded upon sound accounting systems that provide information necessary to be able to manage costs, revenues, assets and liabilities.

“Value for money” type management is not an easy notion to apply in practice for several reasons.

First of all, the application of this principle in practice more often than not requires changes in the manner of and approach to public sector management, since “business-as-usual” administration needs to be converted into “hands-on” management.

Such an approach to management represents a great challenge for the managerial structures, as it requires the setting of clear performance objectives and their attainment while adhering to the principles of economy, efficiency and effectiveness.

For this purpose it is necessary to change the practice of indifference and / or inability costly and inefficient, but "usual" activities and processes to change, because they do not contribute for achieving

the set goals and spend considerable financial resources. In other words, the conduct of such activities and processes are investing funds in return for not getting the best value.

For details on the economy, efficiency and effectiveness and their connection in giving Public services can be seen in ANNEX 1 of this manual.

One of the difficulties that stand in the way of the “value for money” type management is a narrow understanding of accounting, viewed as something that is mainly the function of recording business events and caters for the prescribed financial reporting formats, and there is an insufficient understanding of the role and purpose of the accounting system for the needs of an efficient financial management and control.

In addition to the clearly set performance objectives, one should also know who does what in terms of achieving those objectives and how well do they perform, i.e. there is a need for having an orderly system of managerial accountability.

Managerial Accountability at all Levels of Management

A well developed managerial accountability at all levels of management is the next property of sound financial management and control systems.

An adequate organisational structure with clearly defined the lines of authorities and accountabilities at all managerial levels is a prerequisite for such a system to be built.

Managers at all managerial levels must be aware of the fact that their management and decision-making actions directly imply the creation of financial effects that will be visible sooner or later. They need to understand that they are accountable for this, which also makes them responsible for financial management and control.

Thus, it is important for managers to have clear objectives set before them, as well as performance indicators against the objectives, including the financial parameters.

The lines of authorities and accountabilities must be established firmly, defined clearly, transparent and applied consistently.

In fact, this means that managerial structures at all levels:

- know what is expected from them;
- have clearly defined authority to create assumptions needed to attain the objectives set before them, including the authority to make the necessary modifications of such assumptions (along with asking for relevant approvals from their superiors, as necessary);
- identify and manage risks, including the establishment and the development of a system of controls;
- have adequate information systems at hand, i.e. that they have data available on costs and revenues and the results achieved in order to be able to make value for money judgment calls;
- are accountable for their work and that they show their accountability by reporting on what was achieved with the monies spend and how.

In parallel with the development of lines of authorities and accountability within an organisational structure, a reporting system needs to be developed too.

Management at higher levels needs to have timely information at hand, showing whether or not lower level management has delivered on what they were expected to, was the achieved in line with the agreed rules of operation and how well they have performed.

Common difficulties that may arise in practice and hamper the development of managerial accountability include:

- operating objectives not clearly set;
- organisational structure inadequate for managing the operations efficiently;
- systems of delegation of authorities and responsibilities in the organisation insufficiently developed;
- a lack of adequate information systems, insufficiently developed accounting, especially cost and management accounting.

Systematic Approach to and View of Controls

The “value for money” type management with a developed managerial accountability at all levels require adequate systems of internal financial controls.

When spelling out the financial management methodology, the provisions contained in the Public Internal Financial Control Act defined the internal controls components, which serve as a vehicle for implementing financial management and control.

This leads us to the **third important property of sound financial management and control systems. This is a systematic approach to and view of controls, where the “classical” control activities represent only one of the financial management and control components.**

Systems of financial management and control are founded upon five interrelated components of internal controls³, including:

- a) control environment;
- b) risk management;
- c) controls;
- d) information and communication;
- e) system monitoring and assessment.

Implementation of financial management and control with the above components as the foundation requires one to understand their meaning and the way in which they interrelate, as well as the synergic effects they bring in terms of soundness of financial management once the established system of controls functions as intended.

For instance, to be able to establish adequate control activities one firstly needs to consider an environment in which such controls are to be established and analyse the features of that environment.

³ The components are established in line with the INTOSAI Guidelines for Internal Control Standards for the Public Sector, and are founded upon COSO (Committee of Sponsoring Organisations of the Treadway Commission) internal control model.

Control environment consists of personal and professional integrities, ethical values of staff and their competence, as well as of management types and styles.

When considering the control environment, one should see whether or not organisational mission was clearly defined, if there is a vision of the operations and a planned approach to it, including the set objectives contained in strategic and other planning documents, etc. In the exercise of reviewing the control environment, there is a need to also analyse the organisational structure including the delegation of authorities and responsibilities and the reporting lines, the existence of a practice of applying written rules and procedures, human resource management policy, etc.

A sound financial management and control system takes account of all of the above elements in a control environment and considers the effects they bring.

A developed risk management process is a further characteristic of sound financial management and control systems.

Namely, an environment where there is a developed planned approach to its operation, with a clear definition of the vision, strategic and operational objectives, also requires risk identification to be carried out, as these may be a threat for the achievement of the set objectives. This goes along with taking the measures to avoid the risk from materialising, i.e. to minimise its impact.

Risk management should be seen as an overall process of identifying, assessing and monitoring the risk, taking account of the budget user's objectives, coupled with taking necessary action, especially through the financial management and control system.

Importantly, risk management needs to become an integral part of the planning and decision-making processes. Professionalizing the risk management process is first and foremost reflected in documented information on risks, their types, likelihood of materialising and impact assessment, the introduction of a systematic risk reporting, the production of risk management strategies and the like.

Consideration of a control environment which necessitates the establishment of control activities, while taking account of risks that may potentially jeopardise the achievement of objectives, leads to the adoption of a systematic approach to the establishment of control activities.

Control activities include written rules, procedures and measures put in place for the purpose of achieving the objectives by mitigating the risk to an acceptable level.

Examples of control activities may be: segregation of duties for preparation, processing, recording and payments; double signature system; rules for the safeguarding of assets and information; procedures for complete, accurate, regular and up-to-date recording of all business transactions; documenting rules, etc.

Given business information are greatly important for management and control functions, information and communication represents an important component of a system of internal control.

Since quality of the decisions made by management structure directly correlates with the quality of information on the basis of which the decisions were made, such information must be adequate, up-to-date, accurate and accessible.

This requires efficient communication at all organisational levels, the development of an adequate management information system and the establishment and development of an efficient, timely and

reliable reporting system. The role of the accounting systems within this component is extremely important.

Once established, the financial management and control system requires ongoing monitoring. Monitoring and assessment of the financial management and control system is being performed to assess whether it performs adequately and to make sure needed updates of the system are done in a timely fashion. System monitoring and assessment is performed via ongoing monitoring, self-assessment and internal audit.

1.2. Public Financial Management and Control Regulatory Framework

1.2.1. Basic Acts providing for Financial Management and Control

The fundamental regulations that provide public finance management and define the public sector financial management and control rules include the following:

- **Budget Act⁴**;
- **Public Internal Financial Control Act⁵**;

A) The Budget Act is the core piece of legislation that regulates public finance, whereas its core purpose is to establish management and control over financial flows from and to the budget.

The main areas regulated by the Budget Act include: preparation, adoption, management, execution, reporting and supervision of the State Budget and local self-government unit budgets and the City of Skopje

Pursuant to the Budget Act are adopted bylaws by which detailed regulate the specific areas defined by the Act.

With the Budget Law stipulates in detail:

a) the principle of sound financial management, which means the budget performance compliance with effective and efficient internal control as a process applicable to all levels of management with financial funds in accordance with the principles of comprehensiveness, economy, efficiency, effectiveness and transparency.

b) rules and procedures for:

- preparation, adoption and execution of budgets and
- budget funds management

c) the responsibility of the heads of first and second line budget users for providing financial management and control and budget execution through authorizing persons for revenue collection/inflows and execution of expenditure/outflows.

d) penal provisions - amount of penalties for violation of the provisions of the law is complied with fines stipulated in the Law on Misdemeanors. A fine is imposed if the budget user:

- proposing a regulation or other act unrealistic shows additional fiscal implications on the State Budget;
- not inform the Ministry of Finance on the amount of the donation amounts to be used in the current and coming fiscal years and do not submit monthly base dates for the using of funds from donations;
- opening accounts outside the Treasury account;

⁴"Official Gazette of Republic of Macedonia" No.64/2005; 4/2008; 103/2008; 156/2009,95/2010; 180/2011;171/2012 and 192/2015

⁵ "Official Gazette" no. 90/2009, 188/2013 and 192/2015

- don't collect revenues from performing its competence / activity and not pay them to the appropriate accounts in the Treasury account;
- Budget users don't perform control on the second line budget users;
- don't report the undertaken commitments in the single data base in the Treasury;
- use the funds inappropriately and undertake commitments exceeding the appropriations budget;
- undertake obligations that require the use of budget resources in a subsequent year or years without prior consent and
- not implement the budget of the budget user in accordance with the law.

B) The Public Internal Financial Control Act obliges heads of the budget users to establish internal financial control system, which is a kind of "TOOL" on the heads of the budget users:

- to be able to take responsibility that they have based on the Budget Act
- to ensure successful implementation of the provisions of the Budget Act and
- to prevent the risk of irregularities and fraud

Albeit a separate piece of legislation, the Public Internal Financial Control Act is a complementary part of the Budget Act.

The Budget Act sets the principle of sound financial management, the fundamental rules and procedures to be followed in the production and adoption of draft budget requirements or budgets, budget and asset management, budget accounting and reporting.

Implementation of the aforesaid in practice requires the existence of efficient financial management and control systems. The Public Internal Financial Control Act prescribes the methodology and standards for the establishment and the operation of the financial management and control system.

Both the Budget Act and the Public Internal Financial Control Act **specifically highlight that budget user heads are accountable for** *“legal, purposeful, efficient, economic an effective use of budget and other resources”*.

Further, the Public Internal Financial Control Act sets an obligation for the budget user heads whereby they need to establish an adequate, efficient and effective system of financial management and control to ensure:

- a planned approach to the operations – setting mission, vision and the objectives;
- an arranged organisational structure – defined lines of authorities and responsibilities, and reporting lines;
- clear operating procedures;
- risk management;
- establishment and the development of adequate control mechanisms;
- establishment and the development of an information and communication system;
- ongoing monitoring and assessment of the financial management system.

Inefficient and ineffective systems of internal financial controls may have consequently illegal and inefficient spending of budget funds, for which by Budget Act and the Public Internal Financial Control Act are provided sanctions.

The connection to the Budget Law and the Law on Public Internal Financial Control is shown on the following Figure.

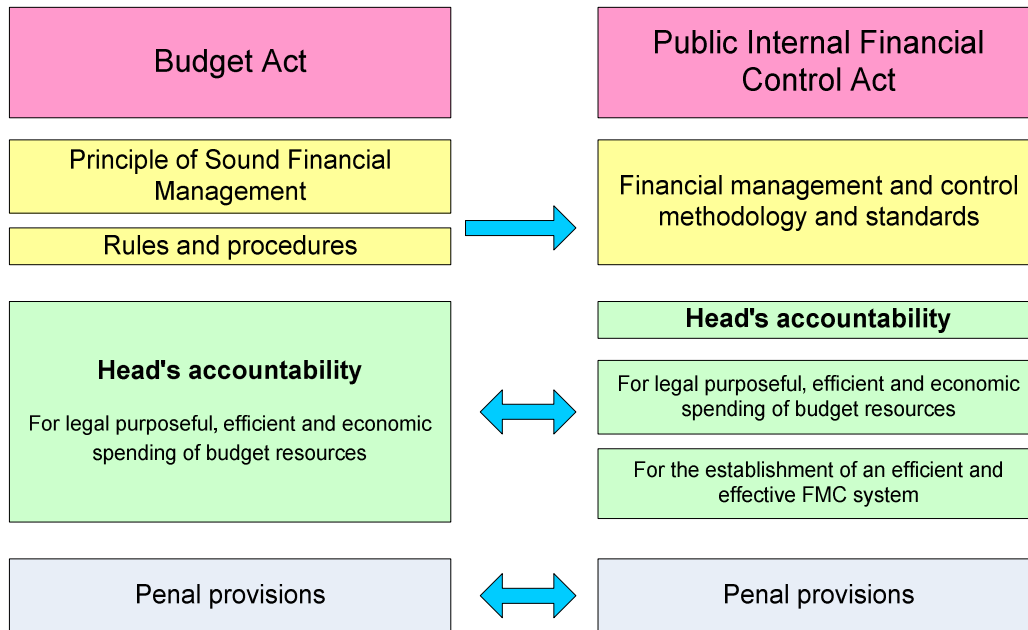


Figure no. 1 Linkage between the Budget Act and Public Internal Financial Control Act

1.2.2. Other regulations governing the financial management and control

As mentioned earlier, the fundamental pieces of regulations providing for financial management and control include the Budget Act and the Public Internal Financial Control Act.

These regulations represent the overarching legislation in the area of financial management and control, since they set the relevant principles, standards, methodological framework and the fundamental rules governing financial management and control.

However, financial management and control integrate numerous fields, such as e.g. human resource management, ethical issues, organisational setup, public procurement, relations between affiliated institutions, etc. Still, such areas are further provided for through many different laws and bylaws, instructions, guidelines, and the like. Thus, regulatory framework providing for financial management and control is much more abundant than just the fundamental regulations, and it includes bylaws that regulate individual areas of operation.

For example, activities related to issues of ethical values, principles and procedures are governed by the Code of Ethics of administrative officers, codes of ethics adopted by the local self government units and the like.

Activities related to the organizational structure are arranged, for example, with the Decree on principles of internal organization of the state administration.

Activities related to strategic planning is regulated by the Manual for Strategic Planning and Policy Manual.

The creation of this system in practice in the budget users also depends on the specifics arising from their responsibilities (eg specificity in the field of health, education, science, local self-government and others).

For successful implementation of financial management and control in practice it is important to understand it is a system that integrates the various areas of work in order to avoid false a perception that financial management and control is an isolated activity that is carried out only formally to meet the obligations under the Public Internal Financial Control Act.

1.3. Institutional relations within the public sector and their impact on financial management and control

A comprehensive and integral approach to the development of the public sector financial management and control requires taking account of the fact that some public sector institutions are interrelated and that such connectedness bears impact on the financial management and control development.

Examples of interrelated institutions include **ministries and agencies** under their remit, put in place for the purpose of handling certain activities from the scope of competence of the relevant ministry.

Examples of interconnected institutions also budget users in their composition (Institutions in health, education, culture, etc., municipalities and budget users (Institutions of culture, kindergartens, etc.).

The interconnection of these institutions stems from the founding relations, consolidation financial plans and financial statements and connection in the realization of strategic purposes.

The relationship between ministries and bodies within the entity, municipalities and their budget users is clearly visible in the budget by organizational classification.

In accordance with the organizational classification ministries have been classified as the **first-level**, and bodies within the entity have status of **programs**.

Direct budget users and local self-governments should in its system of financial management and control to address relations and method of cooperation with budget users in their composition.

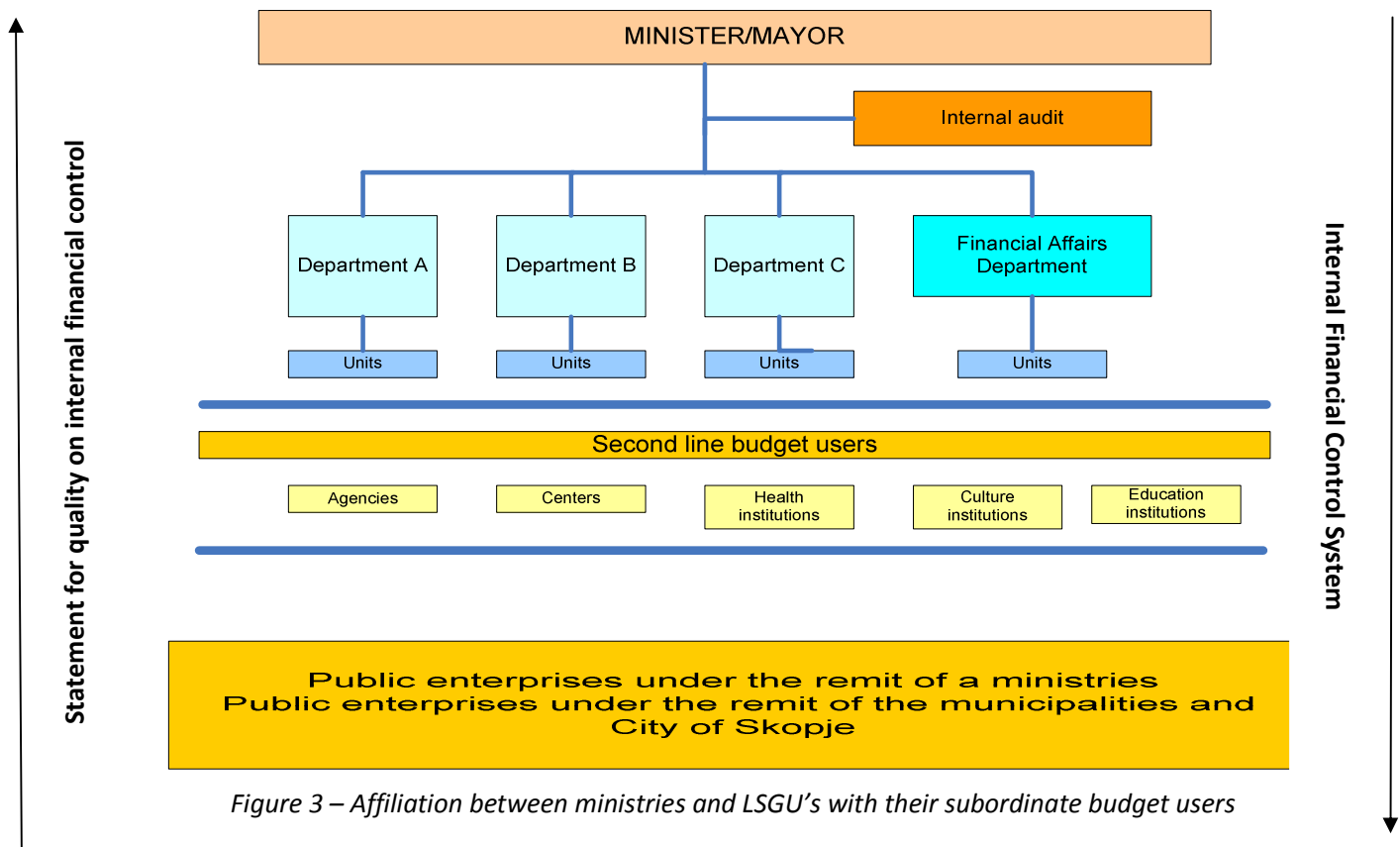


Figure 3 – Affiliation between ministries and LSGU's with their subordinate budget users

Budget users within the system of a ministry/county/city/municipality are the function of delivering on the set objectives for a field of competence. For instance, counties/cities indicated the development of educational, health, cultural and other social infrastructure as a priority matter in their visions and strategic documents. However, the activities focusing on delivering on such objectives are being carried out by schools, kindergartens, hospitals, museums, libraries, i.e. budget users subordinate to a county or a city.

Similarly, the activities of the agencies are the function of delivering on strategic objectives of their competent ministries.

Budget users within ministries or municipalities, their financial plans, that their financial reports are submitted for consolidation to the competent budget, then in general is a budget/financial report of the ministry/municipality.

In terms of financial management and control, a coordinated approach between affiliated institutions here primarily refers to the first- and second-level budget users, which firstly implies a clear definition of:

- authorities and responsibilities;
- modes of cooperation;
- modes of reporting;
- supervising functions exercised by the first-level over the second-level budget users.

According to Article 5, paragraph 2 of the Law on Public Internal Financial Control, financial management and control should be implemented in all organizational units and at all levels entity and covers all assets of the entity, including funds from the European Union and other sources. Because each entity at its level need to regulate the financial management and control system, but the first line budget users must be aware of it through financial management and control to regulate cooperation with budget users within the entity.

For example, in the kinder gardens of their jurisdiction develop financial management and control system, but their founder has a wider range of financial management and control of reason which is responsible for budget users within the entity.

Therefore, it is necessary ministries, i.e. central state administration bodies, as well as local self - government units to cooperate and coordinate development financial management and control of budgetary and extra-budgetary users in its composition section refers to:

Therefore, it is necessary ministries, i.e. the central state administration bodies and local self-government bodies to cooperate and coordinate their financial management and control development with budget and extra-budgetary users within the entity in relation with:

- a) **monitoring the implementation** of financial management and control with budget and extra-budgetary users from their remit;
- b) **giving instructions and guidelines** to budget and extra-budgetary users from their scope of competence in keeping with the guidance given by the Central Harmonisation Unit of the Ministry of Finance;

- c) **coordination of the production of internal regulations** on budget cycle (planning, programming, preparation and execution of financial plans, procurement and contracting) which provide for the relationship with their respective budget and extra-budgetary users.

The aforesaid aims, the daily operations to achieve greater cooperation between related institutions, and greater involvement of the second / third line budget users in the activities of their relevant budgets (ministries, local self-government).

In this sense, the first line budget users (ministries, local self - government) expect the following:

- involve heads of second/third level budget users in meetings between the top management levels of their superior budgets (senior staff meetings of ministers, mayors);
- involve the second/third level budget users in the production of strategic documents which are being prepared at the level of their superior budgets;
- provide for mutual cooperation with budget users from their remits in greater detail via internal regulations (e.g. internal enactments, agreements and guidelines should more thoroughly regulate the authorities and responsibilities in the strategic planning process, modes of coordinating the activities for financial plan preparation and execution, reporting manners, etc.);
- define the way in which the third and second level budget users would report on the most important risks in their respective operations;
- supervise the extent to which budget users from their remit have laid down the control activities in their processes for preparing and executing financial plans, procurement and contracting, asset management, etc.;
- enable the establishment of IT connectivity with the budget users in the system, where possible (via e.g. the establishment of a treasury);
- establish an adequate reporting system that ensures monitoring of the functioning of the financial management and control system with budget users within the entity.

Ministries carrying appropriations of trading companies in dominant state property or unit of local self-government that transmits budget trading companies in their ownership also create related relations.

Public enterprises and trading companies in which the state is a shareholder are not obliged to apply the Public Internal Financial Control Act in the area of financial management and control, but given that the law sets the framework for the development of quality systems financial management based on international standards for internal control and practice the countries of the European Union, they are in accordance with the principles of good financial management needs to develop elements of financial management and control.

Development of financial management and control is considered one of the main measures in the fight against corruption. Because of public enterprises and trading companies in which the state is shareholder should improve the financial management and control system in the way which is regulated by the Public Internal Financial Control Act.

Public enterprises and trading companies in which the state is a shareholder or owned local self-government units in order to realize the objectives of the line Ministry / Local Self - Government and financed with substantial funds State / municipal budget. By their founders or owners in accordance with the principle of good financial management should encourage the development of this system in their public enterprises and trading companies and develop control systems that will provide the

minister or mayor assurance that devolved budget funds is spent on the best way, that in order to realize the objectives.

The fact is that public enterprises and trading companies in which the state is a shareholder or is owned by local self-government units are not specifically listed as entities that have obligation to apply the Public Internal Financial Control Act, but the head of the budget user to public enterprise / trading company in which shareholder paid / transferred certain budget funds, must verify that followed and controlled earmarked payment on donations, aids, subsidies and other transfers to the final user and the use of them and checked the spot in final users.

In order to have a certain level of confidence that the allocated budgetary funds are use not only legal and correct but economically, efficiently, effectively and purposefully, head of budget user can edit the control system connected to public enterprise / trading company in its possession in a manner according to the assessed risks considered appropriate.

So, regardless of the provisions of the Public Internal Financial Control Act expressly not apply to public enterprises and trading companies, their founders or owners in accordance with the principles of good financial management should incorporate such internal control systems that will provide a greater level of certainty that granted funds are spent in the best way, or the attention of a good businessman having a mind that it is a public service provided to citizens.

Formally - the legal framework relating to interconnection of public sector entities in the context of financial management and control, it is continuously reviewed, amended according to the needs of the practice and are more efficient and better functioning of the financial management and control system.

1.4. The role of the Central Harmonisation Unit

The Central Harmonisation Unit is an organisational unit within the Ministry of Finance⁶ tasked with coordinating the establishment and development of Public Internal Financial Control in the Republic of Macedonia.

Coordination at the same time includes cooperation with a large number of stakeholders in order to achieve a **harmonized and coordinated development of financial management and control** against the developments in the budget system and public administration reforms and unified approach to the development of financial management and control of national and EU funds.

Coordination also includes cooperation with the European Commission with a view to developing this system in keeping with the European Union standards and best practices, while taking account of our specificities and circumstances, especially the level of development of this system in practice and areas that require improvement.

Coordinative role also involves ongoing progress monitoring and reporting the Government of the Republic of Macedonia and the European Commission on the system.

Apart from cooperation with the holders of certain public sector reform and compliance with standards and best practices of the European Union, in order to implement this system in daily practice, the key is the cooperation of the CHU with budget users in the public sector.

This goes to show that the Central Harmonisation Unit specifically develops active cooperation and coordination with:

- The Ministry of Finance
- The Ministry of Information Society and Administration
- The Ministry of Local self-government,
- institutions involved in the management and implementation of pre-accession funds of the European Union,
- international experts in the framework of projects financed by the European Union,
- The State Audit Office
- Committee on Financial Management and Control and
- budget users at central and local level

⁶ Central Harmonization Unit (CHU) in the Ministry of Finance's Public Internal Financial Control

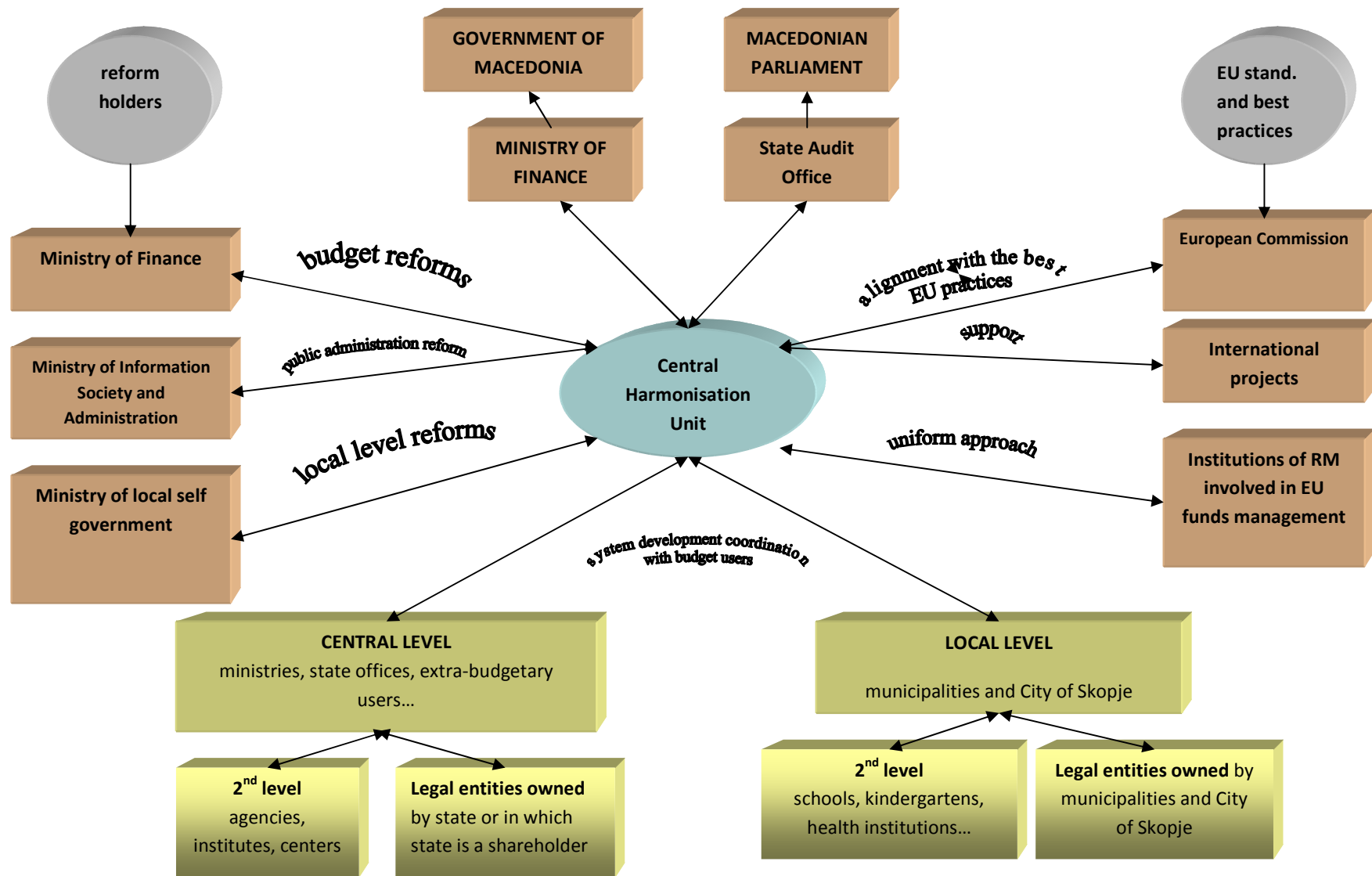


Figure 4 – CHU’s coordination role in financial management and control development

Coordination and cooperation with the Ministry of Finance is important, because the development of financial management and control depends primarily on the development of the budget system. With the development of the budget system aimed at achieving the objectives and results, long-term planning and linking of objectives with the budget and the development of performance indicators and risk management, are preconditions for comprehensive development of the financial management and control. The development of financial management and control, in particular should be support the development of the budget system. Manuals, instructions, guidelines prepared of CHU - CHU for financial management and control should be consistent with the level of development of the budget system.

Coordination and cooperation with the Ministry of Information Society and Administration is important because the areas of competence of this ministry, and organizational structure central and local self-government, relations between the institutions in public sector management human resources (including the issues of ethics, morality, and reward system motivation, etc.), the establishment and work of the Agency of Administration, annual planning work by organizational units and other important elements for the development of financial management and control. Therefore, it is important that regulations governing earlier stated, are the responsibility of the Ministry of Information Society and Administration to support the development of financial management and control.

Coordination and cooperation with the Ministry of Local self-government is important because this Ministry is crucial for regional development, particularly in the area of strategic planning.

Workshop with cooperation between the Ministry of Finance and the Ministry of Information Society Administration is particularly important because in the budget and the system of public Administration started important reforms and it is important to ensure that the system financial management and control is an integral part of budget reforms and reform public administration. By collaborating with key media reforms providing system Internal financial control is in support of its implementation, rather than to develop as an isolated system.

The system of financial management and control and internal audit are developed according to standards and practices of the European Union and is therefore important cooperation with international experts within projects financed by the European Union that convey the European practice Union, which should be applied to comply with the circumstances and specifics of our public sector.

The cooperation with the State Audit Office aims to exchange information on the direction of development of financial management and control and exchange of information on results assessing the quality of financial management and control administered and Workshop State Audit Office. Also, cooperation with the State Audit Office aims to exchange information on the manner and methods used to assess the quality of financial management and control, in order to improve their development.

Through reports from the State Audit Office submitted to Parliament Macedonia, MPs and the public informed about the development of financial management and control weaknesses and deficiencies, as well as progress in this area.

The Financial Management and Control Committee is an advisory body to the Minister of Finance issues related to financial management and control.

CHU introduces the committee with the latest developments in the field of development of the internal financial controls and some open questions. By the committee is expected to review certain outstanding

issues related to certain segments of the system of internal financial controls, giving suggestions to improve the development of this system and promote the best practices.

The cooperation of the CHU with the aforementioned institutions is important because it provides a presumption for comprehensive development of financial management and control at the level of entire public sector. This is being achieved through laws and regulations that provide for the budget system, the Public administration system, and how to assess the quality of the financial management and control and similar, and which are incorporated elements of the financial management and control system.

Especially important is the **cooperation between the Central Harmonisation Unit and budget users at central and local levels**, as they are the ones that are supposed to implement the financial management and control system into their day-to-day operations.

With the intention of making the manuals, instructions, guidelines, the work methodology and standards and the expectations from budget users in terms of the financial management and control and internal audit development closer to budget users, the Central Harmonization Unit organizes meetings with persons in charge of coordinating financial management and control in their respective institutions and with internal auditors. It also delivers workshops, presentations, field visits to institutions, etc.

Workshop primarily cooperates with first-line budget users that are obliged to inform the second- and third-level budget users from their respective remits of the information received in such a way.

The role of the Central Harmonization Unit is to link or “network” budget users in order for them to exchange experiences and knowledge, inform each other of any difficulties and weaknesses detected, share good practices, and so on.

Through the financial management and control system quality assessment (questionnaires for analysis, annual financial management and control system reports, insight into fiscal responsibility statements, etc.), the Central Harmonization Unit is informed of the state of development of the financial management and control system with budget users. They also serve as the groundwork for identifying measures to be taken for further development of financial management and control.

Besides the development of the financial management and control at the level of budget users are increasingly emphasizing the need for his development in public enterprises and trading companies that are state-owned or where the state is a shareholder.

The support of these entities CHU achieves mainly through line ministries or by local government units.

CONCLUSION

The introductory chapter presented the core features of sound financial management and control systems, which may be a guide for the benefit of the budget users to see in which direction they should keep developing the system.

Emphasis was put on the interrelatedness of the financial management and control and the budget systems. This may specifically be seen from the fundamental legal regulations in this area, i.e. in the Budget, the Public Internal Financial Control and the Fiscal Responsibility Acts.

Since financial management and control integrates numerous areas of operation which are being provided for in greater detail through some other laws, bylaws, regulations, instructions, guidelines

and the like, the regulatory framework that provides for this system should be observed in its broader spectrum, and not only through those three core acts.

A comprehensive and integral approach to the public financial management and control development requires taking into account a fact that some public sector institutions are interrelated and that such relatedness bears influence on the development of financial management and control. Interrelatedness of institutions through foundation rights and relations, their functioning, implementation of strategic objectives, consolidation of financial plans and reports and functional connections between some institutions influences the scope of financial management and control development and requires a coordinated approach to the development of financial management between affiliated institutions.

Given the breadth of financial management and control, its systematic development requires a hands-on cooperation between the Central Harmonization Unit and key actors, including: the State Treasury on the activities in the budget system development; the Ministry of Public Administration on the activities in the public administration system development; the institutions involved in the European Union pre-accession funds management and implementation, and others.

The financial management and control systems are being developed so that the public sector institutions can improve and enhance their operations through such a system.

Their functioning depends on the users themselves whose responsibility it is in everyday operations to apply the separate elements, and to use and develop the system.

For this reason, the following chapters of this Manual focus on the implementation of this system with budget users.

2. MANAGERIAL ACCOUNTABILITY OF BUDGET USER HEADS AND HEADS OF INTERNAL ORGANISATIONAL UNITS

As pointed out earlier in the introductory section of the Manual, **managers at all managerial levels need to be aware of the fact that their management, decision-making and the implementation of their decisions in practice imply financial effects, which may be seen sooner or later. Since those effects are the responsibility of managers, they are responsible for financial management as well.**

In other words, those who organize the operations, propose and make decisions and carry out activities stemming from the decisions adopted need to be aware of their responsibility for the way in which they manage the operations, for the financial effects arising from such operations, for risks brought about by such operations, for the control activities that need to be put in place and applied and for ongoing monitoring of system management and for updating the system in a timely manner.

Thus, key persons who are accountable for the way the system of financial management and control functions and how efficiently include managers, especially the heads of budget users and heads of individual organizational units within the scope of their authorities and responsibilities.

While heads of budget users may delegate authorities and responsibilities, it does not exclude his/her ultimately accountability. Similarly, ultimate accountability that rests with the head of a budget user may not be an excuse for other managers or relieve them of any responsibility in the areas under their scopes of competence.

A well established system of accountability requires a clear definition of authorities and responsibilities not only for the execution of core functions but also for the achievement of the set objectives, the results and the manner in which budget resources are being managed.

Aware of their accountability, heads of budget users and heads of internal organizational units are the greatest driving force for the development of financial management and control.

2.1. Budget User Head's Managerial Accountability

Accountability of budget user heads was clearly defined in the Budget Act and the Public Internal Financial Control Act.

Pursuant to the said Acts, budget user head is responsible for:

- legal, purposeful, efficient and effective spending of budget resources;
- efficient and effective functioning of the financial management and control system;
- submission of a Statement for quality and condition on internal controls that previous to be confirmed

In order for a head of a budget user to be able to ensure legal, purposeful, efficient and economical spending of budget resources and to ultimately verify that via a Statement for quality and condition on internal controls, he/she must ensure an efficient and effective functioning of the financial management and control system.

At the level of a budget user head, this implies the following responsibilities:

- the financial management and control system was established across organization and throughout all of its elements;
- there are clearly defined authorities and responsibilities that lower level managers have before the budget user head in terms of the achievement of the set objectives and management of budget resources;
- a reporting system was put in place that provides feedback to the budget user head and top management as to what has been done, what results have been achieved, and how are budget resources being managed;
- mechanisms have been put in place that ensure feedback on the functioning of the financial management and control system, system weaknesses and actions taken to remedy them.

Responsibility of a head of a budget user in terms of the establishment of an adequate, efficient and effective financial management and control system in fact includes the responsibility for:

- development and implementation of strategic and other plans and programs aimed at achieving general and specific objective of the budget user;
- alignment of strategic and operational plans and programs with the financial plans;
- establishment of an adequate organizational structure with the definition of authorities and responsibilities;
- establishment of reporting lines in accordance with the delegated authorities and responsibilities for the purpose of monitoring the results achieved with resources made available for given programs, projects and activities;
- integrating the risk management system into planning and decision-making processes;
- establishment of efficient and effective control activities which ensure efficient management of revenues, expenses, assets and liabilities;
- establishment of efficient and effective information and communication systems;
- monitoring and assessment of the adequacy, efficiency and the effectiveness of the financial management and control systems put in place and improvements in agreement with the level of implementation and the development status;
- ensuring a clearly defined modes of cooperation, authorities and responsibilities, as well as a reporting system between the first and second level budget users.

2.2. Delegation of Authorities and Responsibilities

The fact that a head of a budget user bears ultimate accountability does not mean that the budget user head is obliged to make all decisions and sign all or most of the institution's outgoing documents. Making all decision and signing all documents does not ensure control of organizational activities. In fact, is quite the opposite, because:

- the budget user head will not be able to devote time to strategic issues or general supervision, control and leadership within the organization;
- making certain decisions requires knowledge of some technical details, specificities and the like, and the budget user head does not necessarily need to possess such expert know-how, which makes the decision-making in such matters more difficult for him/her;
- even when the staff are involved in the internal decision-making processes, they are neither authorized to make final decisions nor do they appear as responsible persons with their names and signatures; this results in a lack of responsibility and inadequate personnel development.

Having an organization in check does not mean that the head must control every single financial or business decision.

The budget user head is responsible to make sure that the organization is capable of delivering on organizational objectives efficiently and effectively. The head needs to establish organization and appoint managers capacitated for the (effective and efficient) achievement of organizational objectives, and arrange relevant authorities and responsibilities. Such an organization may provide reasonable assurance to the budget user head that the objectives are being achieved in line with the budget, that services are being rendered and activities carried out effectively and efficiently, that relevant laws and regulations are being adhered to, and that decisions are being made in the public interest.

2.3. Internal Organizational Unit Heads' Managerial Accountability

Heads of internal organizational units play an exceptionally important role in a successful functioning of the financial management and control system. They represent an operational level of this system's implementation in agreement with their assigned authorities and responsibilities.

The accountability of the heads of internal organizational units arises from internal organization regulations (Internal Organization Rulebook, Internal Rulebook on systematization). hat usually spaced responsibilities for the implementation of the basic functions and activities for which the budget user is responsible.

Moreover, the accountability of the heads of internal organizational units may be further regulated by internal decisions that regulate authorizations and responsibilities relating to the goals and programs, and management of budget funds.

Responsibility of the heads of internal organizational units include:

- identification of strategic objectives from their scope of competence;
- definition of performance indicators to enable them to report the upper levels on the outputs and outcomes;

- achievement of objectives in line with the approved budget, i.e. approved financial resources;
- supervision over the implementation of programs, projects and activities under their responsibility;
- identification and management of risk from their scope of competence;
- improvement of the way of doing business in terms of the efficiency and effectiveness. To that end, managers need to be well familiar with their area of operation in terms of: How much do their activities cost? What are the cost drivers? How new expenditures, new/additional actions proposed affect costs and revenues, which value will bring? What are the alternatives? Where are the potential savings?
- management of human, material and financial resources under their responsibility in an economic and effective manner;
- performance measurement and evaluation to see whether they performed activities match the expectations in terms of quantity and quality;
- development of their staffs;
- development and maintenance of effective relationships with budget users within the system/second line budget users, where applicable;
- establishment and maintenance of effective working relations with the finance and budget units.

Managers at all levels of an organizational structure are key persons responsible for financial management and control.

The most successful manager is one that achieves value for money. To achieve an effective managerial accountability, managers need to have reliable information in a form that can meet their needs. In addition, financial plans or budgets need to be structured in a way that allows linking financial resources with individual programs and projects, with a clear responsibility individual manager has.

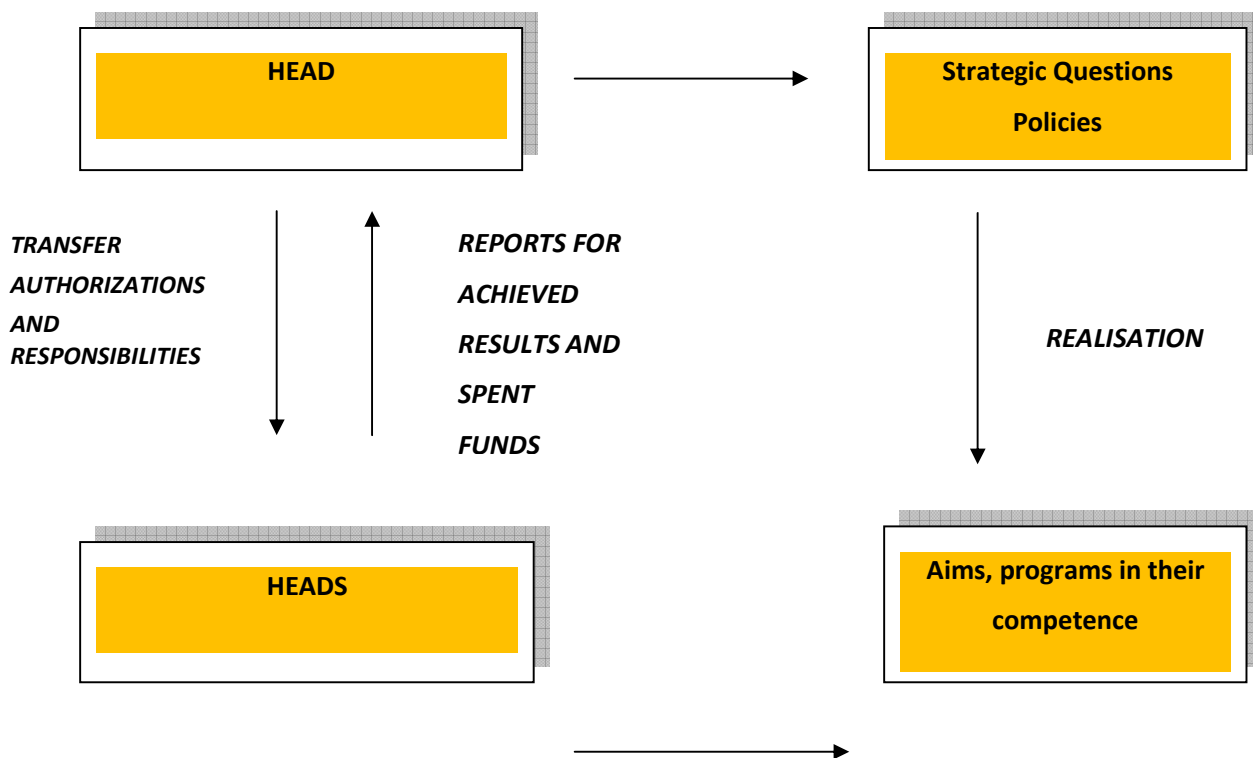
In conclusion

To illustrate, the head of a budget user is “the first and the last link in the chain of responsibility”, however, the “chain of responsibility” is comprised of all managers in an organizational structure.

It is true that, the budget user head is ultimately accountable for the way in which the organization he/she leads does business, if the organization achieves the set objectives, and whether or not it does so in a legal, regular, economical, efficient and effective manner.

However, managerial accountability means keeping things in check without controlling just about everything. It would be wrong to think that a budget user head may be accountable only if he/she makes all the decisions personally, and if he/she supervises things to the pettiest of detail. This often may result in other employees' alienation from the internal control processes, due to a lack of clarity in the definition of authorities and responsibilities. Organizational inefficiencies and poor accountability of lower level managers and staff, and an inadequate staff development would be an inevitable consequence of such a course of action. Specifically, it more often than not means that lower level managers may not reliably know what budget resources are made available to them or what objectives they should achieve.

Through the development of financial management and control, the budget user head may improve the way in which the organization operates. Heads should especially understand what are the benefits brought about by the delegation of authorities and responsibilities. They should also understand that a clearly defined system of delegation and the establishment of proper reporting lines, including clear objectives and key performance indicators, may help them keep things generally under supervision and control. Additionally, they may perform more and better, since they would be freed from the day-to-day administrative work that allows them to focus more clearly on the achievement of the organizational policies and objectives.



Delegation of authorities and responsibilities does not exclude the budget user head's accountability. The accountability of the budget user head remains the same in the process of authority and responsibility decentralization, however managers assume their responsibility before the budget user head for the section of operations under their respective scopes of competence. The responsibilities of managers must be in accordance with the authorities conferred or the rights to decide.

Decentralization of authorities and responsibilities will provide greater efficiency of heads and general of budget users, but it is important that heads who are asked responsibility know what results/objectives to be achieved, which budget resources are available, which authorities they have for managing budget resources and decision-making, and to have developed systems of internal control, especially of controls, necessary information and competent employees. These at the same time constitute all relevant elements of financial management and control. Therefore, the development of managerial accountability inevitably requires the development of financial management and control and, conversely, the development of financial management and control may not be ensured without the development of managerial accountability.

To a large extent, the development of managerial accountability depends on the specificities of individual budget users (e.g. organizational structure, the way in which they manage their budgets, the state of development of business information systems and many other elements).

Moreover, the development of managerial accountability requires certain prerequisites for which more information can be found in the Guidelines for the managerial accountability published on the website of the Ministry of Finance.

http://www.finance.gov.mk/files/u249/Nasoki_za_rakovodnata_odgovonost_9062014.pdf

3. ROLE OF FINANCIAL AFFAIRS UNITS IN THE FINANCIAL MANAGEMENT AND CONTROL DEVELOPMENT

3.1. Financial affairs units – coordinators of financial management and control implementation

Organizational units in charge of financial management and control belong to the group of key actors in the development of financial management and control at budget user level.

Just as there is a need for managers to understand their role in the financial management and control system, a proper understanding and appreciation of the role of financial affairs units is just as important.

It frequently happens in practice that this role is insufficiently understood and/or misinterpreted.

Since this is all about financial management and control, the word “financial” may lead to misinterpretation, whereby any matter having to do with financial management and control should be handled solely by financial affairs unit.

Another extreme which may appear, given that the development of financial management and control highlights the responsibility of the management and the need for their active involvement, it is no longer clear what should work organizational units for financial affairs, or threatens risk their role marginalized.

The development of financial management and control in a way that puts emphasis on managerial accountability for the results achieved and budget resources spent definitely influences the change in the role of the organizational financial affairs units..

In input-based budgeting system which is most frequently characterized by a centralized approach to managing budgetary resources, there is a common misperception that the financial affairs units are the only ones to “cater for finances”.

Such misinterpretation of the financial affairs unit’s role is a consequence of a traditional, narrow minded perception of the notion of “financial management”. That is to say, “financial management” was most commonly perceived as an activity that just controls to see whether or not funds have been spent to the amount and by type of cost approved in the budget or a financial plan, whereas the outputs and outcomes were falling behind the scene or were not monitored at all.

In such a system, “catering for finances” in fact becomes a purely administrative role. Organizational financial affairs units are the ones which have information at hand on how much money was spent and how much of it is left, they check financial documentation (mainly formal controls to see whether the financial documentation contains all required elements), keep bookkeeping records, produce legally required financial reports and other reports as needed, most frequently at budget user head’s request.

Such an administrative role of finance unit may meet the requirements and suffice under the circumstances where there is an input-based budget system, since such system is most commonly characterized by a centralized approach to managing the budget resources and when the main concern in such a system is whether or not the funds have been spent to the amount and by type of planned resources.

The development of financial management and control in a way that puts emphasis on the results achieved, economy, efficiency and managerial accountability for the financial effects, also influences the change in the role of the organizational financial affairs units .

Financial affairs units are not and may not be responsible for budgets across the organizational sections and programs, neither can they be responsible for the achievement of programme results. This is the responsibility of managers in charge of implementing such programs, projects and activities. Financial affairs units are tasked with providing support to managers in assuming their managerial accountability for financial effects.

As a sort of “voice of the financial profession”, financial affairs units need to be proactive in the development of financial management and control and be adequately supportive of other managers by providing them with advice, proposals, seeking solutions for the design of a system of controls, in fact, they need to provide anything that will help managers assume their responsibility for managing budget resources.

The aforesaid indicates the development of a new role of the head of financial affairs unit, or the role of a financial management and control coordinator.

Coordination role of the financial affairs units

Coordination role of the financial affairs units and its head is regulated by article 11 of Public internal financial control law and rulebook for the way of implementing of the competences of the finance affairs unit (“Official Gazette of The Republic of Macedonia” No. 147/10 and 34/11) and includes the following:

- coordinating the process of preparing and amending the budget and the strategic plan of the entity
- coordinating the process of developing, establishing, implementing and maintaining financial management and control and the development of a plan for the establishment of financial management and control, and methodology for implementation of the plan approved by the head of the entity
- coordinating the process of accounting recording of the budget execution and preparation of the annual accounts and the annual financial report
- compulsory giving opinions on draft acts prepared by other organizational units within the entity and the draft acts of other entities that have or may have financial implications for the budget of the entity
- implementation of ex ante and ex post financial control
- implementation of protection of assets and liabilities whose value is recorded in the balance sheet
- controlling of the implementation of financial management and control by monitoring the full and timely collection of revenues, timely payment of expenditure in accordance with the procedures of taking responsibilities and execution of payments, compliance of budget execution as a whole or for individual budget items with the procedures adopted by the head of the entity and / or the Minister of Finance and budget and financial reporting
- preparation of the draft budget of the budget user for next year and multiyear projections related to the budget based on the proposals received from the heads of departments, units whose heads

are responsible directly to the head of the entity and bodies within the entity and guidelines of the Financial Affairs Unit complied with the guidelines of the Ministry of Finance

- monitoring the effectiveness of budgetary control carried out by the heads when managing their own part of the budget, while providing if the approved budgets are not exceeded, change the assignment between the budget items are made according to the objectives and/or purpose and budget items carried out in the year for which are planned
- advising and fostering heads to implement effective, efficient, orderly, verifiable and complete financial management and control and overseeing of the establishment and implementation of accounting and in cases when accounting is not under its full and direct responsibility
- establishing an audit trail or documented flow of financial and other transactions from their beginning to end and control the audit trail established by the heads of the entity
- cooperation with the Central Harmonisation Unit within the Ministry of Finance in relation to the establishment and development of financial management and control

The development of financial management and control requires the budget user to strengthen manager's accountability for the way in which they manage the available resources, commitments, costs and results, along with the achievement of far greater degree of economy, efficiency and effectiveness in the operations.

Therefore, managers bear the main responsibility to make sure that: funds are being spent as planned in the budget; liabilities do not exceed the budget; resources are spent purposefully in support of organisational achievement of objectives – and that all this is performed effectively and efficiently in the context of good governance. They also need to make sure that internal controls covering the finances have been adequately implemented in practice.

Financial affairs units need to provide advice and support to the heads, that involves scores of activities, with only a few mentioned below:

- ensure financial leadership within the organisation so as to make sure that all managers take account of financial information when making decisions
- ensure that financial resources have been adequately considered in the design of strategic objectives and prioritisation, when making strategic documents;
- providing advice to other managers on how they can employ financial and performance information to allow them making an assessment of the most adequate service or activity delivery mode;
- ensure that managers get involved in the process of budget/financial plan preparation;
- ensure that managers have information needed for budget preparation at hand and that operational and environmental changes be adequately reflected in such budgets;

- scrutinise the budget requests submitted by managers in terms of their compatibility with the objectives and priorities of the organisation and their alignment against the Ministry of Finance's requirements;
- informing managers of their budget allocations on time;
- ensure that individual managers control the expenses, revenues and liabilities to make sure that they are consistent with the planned budget, i.e. supervise the extent to which managers monitor the actual implementation versus the allocated budget;
- supporting managers in reconciling conflicting interests, e.g. excessive expenditure versus available resources;
- considering and scrutinising actual data from the previous periods to allow monitoring of efficiency and effectiveness and to indicate the areas in need of more detailed analyses to managers;
- supporting managers by providing them with accurate and timely financial advice on value for money;
- considering proposals for new activities and investments in order to make sure that the associated costs and revenues have been taken into account, i.e. make sure that there is adequate financial planning and supervision over investment projects, irrespective of whether it involves a new project or maintenance.

To be able to provide such support, the coordination role of finance units implies the following activities:

- devising, running and developing budget processes in accordance with legal regulations, taking account of the specificities of the given budget user's operations;
- making sure that the delegated functions, limitations and responsibilities within the budget processes have been clearly defined and adhered to;
- development of accounting systems geared to generate information on costs, revenues, assets, liabilities and results achieved;
- monitoring the overall financial performance during the course of a budget year; in case of any discrepancies, they should be substantiated and approved by an authorised person, i.e. action should be taken to get the budget "back on track" (bearing in mind that budget needs to be flexible within a perimeter in order to be supportive of the achievement of objectives);
- cooperation with second- and third-level budget users, if any;

- ensuring that the reports required by the Ministry of Finance reflect true and fair situation in the institution.

Through their coordinative role, finance units also take the role of a “main counterpart” for the Ministry of Finance, the State Treasury and the Central Harmonisation Unit concerning the development of financial management and control at budget user level.

Fundamental rules and regulations produced by the State Treasury and the Central Harmonisation Unit need to be further elaborated on through internal procedures and regulations. The existence of clear, written rules facilitates the operations substantially, i.e. it makes the handling of budget processes easier.

In addition to the regulations and methodology (manuals, instructions, guidelines) prescribed by the State Treasury and the Central Harmonisation Unit, the organisational units in charge of finance are also expected to launch/prepare further elaboration on the financial management and control rules, while taking account of the specificities of their institutions. Moreover, finance units are supposed to exercise supervision or monitoring to see whether or not sound financial management principles are being adequately applied, if such principles need to be supplemented, modified, updated, etc. and the reasons for doing so.

Managers responsible for the achievement of results, the financial effects and a rational spending of resources are under obligation to take courses of action in adherence to the adopted rules for an orderly financial operations. The existence of rules, especially those concerning planning and the financial plan execution, keeping records and the production of reports for the needs of managing revenues, costs, assets and liabilities greatly facilitates actions that managers take. This is so because managers are clear as to what they need to do in order take account of the financial aspects of their operations while planning and carrying out their activities.

Since they need to abide by the rules, it is important that managers get involved in the design of such rules too. Further, certain operating specifics should be pointed out during the process of producing such rules to be adequately taken into account and incorporated in the rules.

If left unapplied, rules will not bring any improvements to the operations in their own right if there is no support from the budget user head and a hands-on cooperation with managers, especially in the implementation of the set financial operations rules.

The organizational units in charge of finance have a dual role to play. While on the one hand, they coordinate budget processes within a budget user and optimize the budget, their role towards the Ministry of Finance may, on the other, be shown as follows:

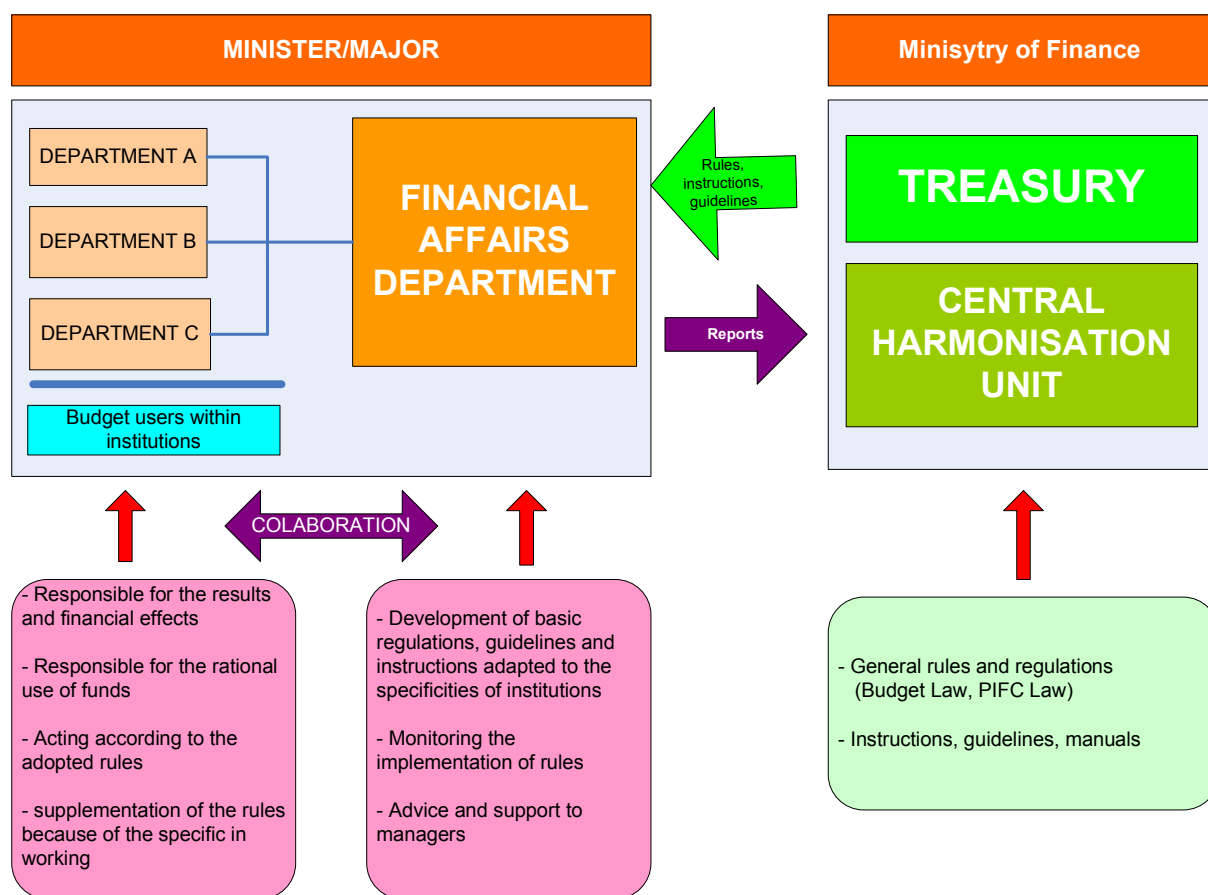


Figure No. 5 - Internal and external role of Financial Affairs Units

Organisational setup of finance units

Due to the complexity of the activities required from finance units, **their adequate organisational status is very important.**

At the level of a ministry, it would mean that the unit should be set up as departments, especially in large ministries in terms of the amount of their budgets and the number of budget users under their remit or the number of majority government-owned enterprises falling under the scope of competence of such ministries and with budget transfers made for their benefit.

The development of financial management and control also requires the development of administrative capacities of the finance units, primarily in terms of their expertise and competence to be able to perform this complex and demanding coordination role.

Further, job descriptions for financial affairs units should be aligned with the activities required in the area of financial management and control coordination.

The description of the tasks related to the coordinating role of the financial affairs units is contained in Annex 2 of the Manual.

Coordinator of Financial Management and Control

Taking into account the specificities of operations, head of the budget user may appoint a coordinator for financial management and control.

Provided the coordinator for financial management and control, it is necessary to be person within the Financial Affairs Unit. It is recommended that it be a person who knows the budget cycle and its phases of planning, execution, accounting and reporting, in order to be able to carry out coordination activities mentioned in this chapter.

Working group

In the early beginnings of the financial management and control development, when the greatest emphasis was put on listing and describing the business processes, budget users have frequently been establishing working groups called the “financial management and control working group”. Its activities mainly revolved around the production of a book of business processes. While this facilitated the conducting of this demanding task, it however caused misunderstanding for some who thought that financial management and control is being implemented by the working group only and failing to understand that it involves an ongoing activity under the responsibility of management.

Since financial management and control involves numerous areas, modes of operation and activities that a system encompasses, putting working groups in place would definitely be desirable.

When it comes to some developmental activities, e.g. computerisation of some systems or the development of procedures, it is desirable to create working groups comprising representatives of relevant organisational units, the financial management and control head or the representatives of the finance unit. Importantly, however, such working groups should not be designated a financial management and control working group. Rather, they should be called a working group for the given activity it addresses.

Worth mentioning is that any business area to be arranged requires the establishment of separate working groups comprising persons with greatest degree of know-how and competence in that specific area. Thus, separate working groups may be put in place for computerisation of some areas of operations, the production of strategic plan, the design of key performance indicators, etc.

Conclusion

The development of the coordination role of finance units needs to be considered in the context of the development of the public sector financial profession, primarily towards its advisory and support role for the benefit of managers.

The development of financial management and control which requires the attainment of a greater degree of economy, efficiency and effectiveness, as well as strengthening the accountability of public sector managers for the achieved results and financial effects, also influences the relevant changes in the role of finance units. This role of a “controller” should be developed to convert into the role of “and advisor and a supporter”.

Finance units are not the ones to set the objectives or spend the budget money. Therefore, they are not responsible for the execution of programs, the results or the financial effects. These are all

responsibilities of public sector managers. However, the financial profession is expected to set the rules that provide for financial operations at the institutional level.

The Ministry of Finance's fundamental rules applied to financial management are presented in the Budget Act, the Public Internal Financial Control Act, and other regulations. However, these do not suffice to meet the internal financial management needs. It is, therefore, the role of finance units to further elaborate on such rules taking account of the institution's specificities. Such elaboration necessarily has to be done in collaboration with other managers and their active involvement.

The decentralisation of authorities and responsibilities to managers, especially in large ministries, counties and cities, also creates the need for opening job positions in the organisational units that provide support to managers in charge of producing financial effects.

Just as the organisational units in charge of finance are an extended arm of the Ministry of Finance, the decentralised finance positions spread across other organisational units are the "extended arm" of the finance units of their institutions.

The development of the financial pillar shown above is a long-lasting process. Experiences from other countries, the Netherlands for example, show that it can take more than 20 years of development to convert the role of a controller into the one of an advisor and support provider for the benefit of the institution head. Resultantly, finances are present in all stages of the operations, advice and recommendations made by the financial profession are being taken into account, financial effects are being adequately considered by managers, rules and procedures are being launched jointly. Further, all organisational units within a ministry also have a financial job position, the so-called decentralised controllers.

Nowadays, the financial pillar in the Netherlands is reinforced to such an extent that the Dutch Minister of Finance applies what was legally prescribed and gives his/her consent for the appointment of finance directors in other ministries as key counterparts for the Ministry of Finance.

Further development of public financial management and control will require the creation of necessary assumptions in organisational terms, so that the development of the financial pillar in the public sector may move in the direction shown in the figure above.

Financial pillar

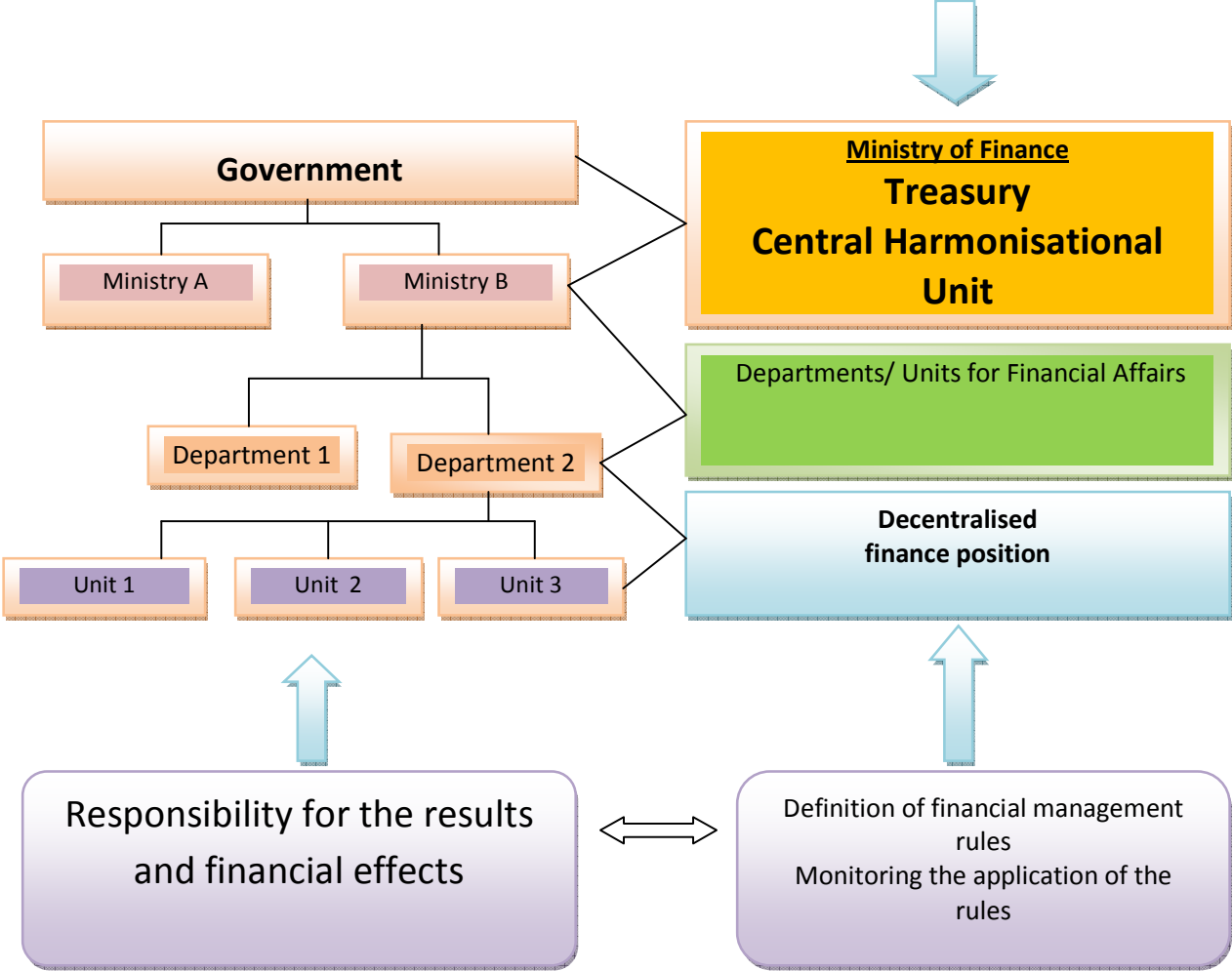


Figure No. 6 – Financial pillar

4. METHODOLOGICAL FRAMEWORK FOR FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

Financial management and control is being implemented through five interrelated components of internal control, including:

- control environment;
- risk management;
- control activities;
- information and communication;
- monitoring and assessment.

The contents of these components are further elaborated on in the Methodological Financial Management and Control Implementation Framework, annexed to the Public Financial Management and Control Implementation Ordinance.

Importantly, each of the above components comprises numerous activities, modes of implementation and procedures that the budget users implement, while observing laws and regulations and taking account of their institution's specificities.

The development of financial management and control requires that budget user understand the meaning of these activities. They also need to recognise the activities, modes of implementation and procedures contained in the components as their everyday business activity (and not as an additional job). Further, they need to grasp the way in which the components are interrelated and the synergic impact they bring in terms of soundness of financial management and control.

The following section presents further elaboration on the components and the way in which they interrelate.

4.1. Control environment

A manageable environment in which things may be controlled stands as a sort of a precondition for the development of sound financial management and control systems.

An environment implies ethical values, integrity and competence of staff, leadership and management style, the existence of a planned approach to operations, a well laid out organisational structure with clearly defined authorities and responsibilities for the execution of functions, achievement of the set objectives and management of budget resources.

It is the foundation for the development of other components of financial management and control. If a budget user does not have a sound control environment, the development of risk management, drafting internal regulations and procedures, the development of reporting systems and other activities will be just a formality to meet the legal obligations and requirements from the guidelines of the Ministry of Finance. It would neither be applied in practice nor would it consider the benefits that a budget user might yield from sound management.

4.1.1. Ethical values, integrity and competence of staff

Any system rests upon its people, and the financial management and control system is no exception. Although human resource management may seemingly be detached from financial effects, it represents one of the important areas for the development of a financial management and control system.

It is the staff that make up a system, and the staff are functioning within an established system.

Human resource management, recruiting professional and competent people, investment in their ongoing professional improvement in accordance with the operating needs, staff motivation and rewarding system, communication channels, taking account of staff's opinions, all these are important preconditions for the establishment of a sound control environment.

Ethical values, morals and integrity of staff are the starting point for the creation of a sound control environment.

Ethical values and integrity of staff are the drivers that direct them in their work. In turn, this is reflected in their self-confidence, discipline and readiness to perform the assignments.

Codes of ethics and written statements aimed at avoiding potential conflicts of interest are some of the vehicles for ensuring a sound and ethical environment. All staff must be familiarized with such mechanisms, and a consistent adherence to the prescribed standards of behavior must be insisted upon. However, while practice shows that certain standards of ethical behavior are frequently defined, rules of procedure in cases when unethical behavior is detected and reported frequently aren't. In any event, this should be further elaborated on with a view to establishing a sound and ethical environment.

In addition to ethical values and integrity, competence of staff also matters.

How successful a budget user would be in achieving its strategic objectives greatly depends on professional competence of staff, their readiness and motivation to cooperate. Competence is a mixture of knowledge, skills and methods for delivering on one's responsibility towards the achievement of budget user's objectives as well as of individual's position. Therefore, it is necessary to define the required level of staff competence and provide adequate policies and practices in this area.

Under human resource development, special attention should be paid to:

- Skills and competencies of staff. Has the existing level of knowledge and skills of staff been aligned with the budget user strategy; Are they capable of coping with the everyday challenges and possibilities associated with the given assignments?
- Staff motivation. Does the budget user have such an environment in place that motivates the staff to direct their competencies and work towards the achievement of the organisation's strategic objectives.

Ever greater demands in terms of expertise and level of training are being put before the staffs and managerial structures in the public sector. Staff ready to learn and take on new challenges represent the core resources and a driving force of change in the public sector. **Capable staff who develop new ideas, create new values and innovate in the operation of a budget user are a key resource.**

In that context, monitoring the performance of staff, their motivation, skills, professional competencies, their professional advancement and performance of assignments represent an important field of the

financial management and control system, as it directly contributes to the design and implementation of this system in practice.

Neither the best equipment nor the most modern information and communication technology can contribute to a successful operation of an institution, unless there are professional and well trained people who can put them to a good use.

Satisfied employees are better performers, thereby contributing to a better execution of the institution's mission and vision. A system for motivating and rewarding staff matters in this context. The public sector does not have a system in place to reward the staff by providing them with cash bonuses. However, staff may be rewarded through career advancement, annual leave days or funding certain activities (e.g. paid studies or additional training, taking part in study visits, etc.).

Successful performance of staff assignments greatly depends on options provided for staff learning, training and practicing new skills. Therefore, learning and professional training need to become an integral part of the operations and a part of day-to-day work, since such an approach can:

- improve value for budget users through new and improved services;
- develop new business opportunities;
- develop new or improve the existing business processes;
- reduce the rate of errors and the associated cost;
- improve responsibility and time needed to carry out an activity;
- improve resource productivity and performance;
- improve performance of a budget user in delivering its socially responsible tasks.

4.1.2. Leadership and management style

The development of financial management and control depends of the awareness of budget user heads and other managers and their understanding of the responsibility they have for financial management and control.

The way in which budget user management manages and leads the operations, oversees the decisions and actions taken by senior management, establishes the organisational structure and management's attitude towards the systems of control bear significant influence on the development of financial management and control.

If managers are proactive in their approach to management, including the setting of long-term objectives, linking such objectives with goals of organisational units, taking control activities with a view to addressing the most important risks, definition of key performance indicators to monitor the achieved results, a systematic reporting manner, etc., this will substantially influence the staff as well and motivate them to pay greater attention to those issues while they perform their own activities.

Such a proactive approach or management style frequently requires that meetings at the highest managerial level be regularly held to discuss the objectives, work plans, budget/financial plan, achievement of the set objectives, discrepancies in achieving the goals and the expected results and the measures for addressing the discrepancies detected.

The objectives of a budget user must be clearly set and made known to the staff, so that the staff can take position on and be supportive of the achievement of such objectives. It is important to inform the

staff of the set objectives. They need to have a clear understanding of the role they play and the contribution they give to the achievement of the set objectives and to pointing to operating risks known to the staff at their levels.

Against this backdrop, communication between management and staff is exceptionally important. Such communication means that the staff are familiar with the objectives and that they understand the way in which the organisational unit's objectives fit into the overall objectives of the budget user. On the other hand, it means that management receives feedback on the achievement of the objectives, possible difficulties, risks and opportunities for making improvements to the operations.

4.1.3. Planned approach to operations

A planned approach to operations represents one of the exceptionally important areas for financial management and control. It implies that the budget users:

- understand their mission (*reason for budget user's existence*);
- have a clear vision of its business;
- identify strategic objectives on the basis of the previously conducted analyses of the current state-of-play, i.e. analysis of strengths, weaknesses, opportunities and threats;
- define program through which they will achieve the set objectives;
- ensure linkage between the strategic planning documents and program and the operational plans in order to make the day-to-day operations supportive of the achievement of the set strategic and programme-related objectives;
- ensure linkage between the strategic and operational planning documents and the financial plan or the budget, so that the objective setting exercise could take account of the financial restrictions and all possible financing sources (budget resources, European Union funds), and to make sure financial effects are being monitored;
- identify risks versus the set objectives;
- supervise the achievement of the set objectives and adapt the objectives to accommodate for the changes in the environment in a timely manner;
- coordinate the activities aimed at preparing the planning documents between the first-and second-level budget users.

Strategic planning

Strategic planning is a process that involves the setting of long-term operating objectives on the basis of the conducted status analyses. It further includes the definition of ways through which they would be achieved, the definition of key performance indicators and an ongoing monitoring of progress versus the set objectives and key performance indicators.

In simple terms, all public budget users are recommended to have the measures/projects/activities that are being or will be financed from a budget (national/local/European Union funds) founded upon a strategic document, which states what is intended to be achieved and how does the

government/region/local community intend to face the complex problems which may not be dealt with in the short-run or in an *ad hoc* manner.

Namely, a strategic approach to planning is grounded upon an understanding of a broader context in which a budget user operates, the problems existing in a sector (e.g. health, social welfare, education, defense, transport, tourism, etc.) and how complex dealing with such problems would be.

One may say that strategic planning has existed in the public sector for a long time. However, this process has been implemented systematically only since 2013, after the adoption of the Budget Act (“Official gazette of Republic of Macedonia” no. 171/12). Of course, this does not mean that the budget users have never been preparing and adopting numerous strategic documents in the past. Such previous documents were also vehicles to set the strategic objectives and indicate the means to achieve them. What was missing though was:

- linking the objectives and financial resources, i.e. linking the strategic and budget planning;
- uniform strategic plan production and implementation methodology.

Since 2013, pursuant to the Budget Act , first line budget users⁷, are required to prepare strategic plans for a three-year period and to link the financial plan or budget. Therefore the strategic plans of budget users should contain quantified programs, activities, goals and priorities of the budget users for the three-year period, which should not exceed the maximum amounts of appropriations for the next three fiscal years by budget users of central authority and funds established by the Government with the Fiscal Strategy.

The three-year strategic plans produced in accordance with the Budget Act are not a substitute for the existing strategic and planning documents, than rather establish a link between the existing strategic documents and the budget. They are being produced on the basis of the adopted strategies and other long-term development documents by taking into account the set objectives and changes in the environment (e.g. constraints in financing options, change in priorities, beginning of the use of the EU funds, etc.). Based on the three-year strategic plans, amendments to the already adopted strategic and planning documents may be proposed, as necessary.

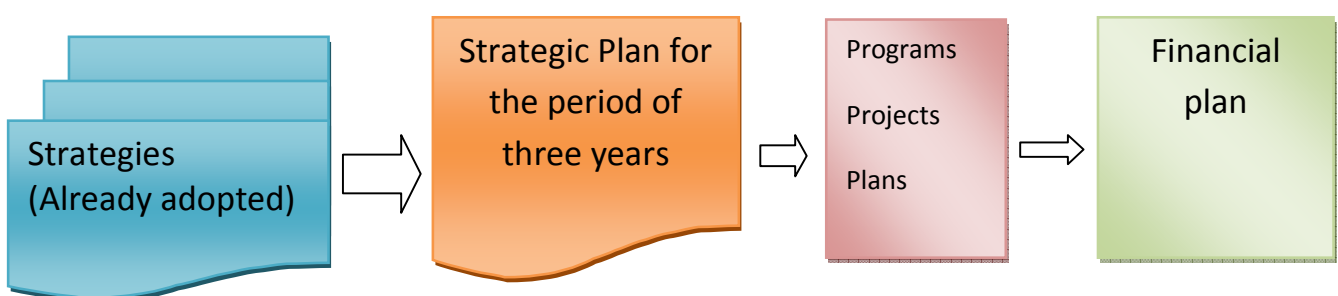


Figure 8 - Relation of the strategies adopted, the three-year strategic plans and Financial Plan

⁷ Budget users are the first line of the legislative, executive and judicial powers, funds, beneficiaries of the budgets of municipalities and users established by law that are entrusted with public authorizations;

The methodology for developing strategic plans for a period of three years (structure, content and method of preparation) is further governed by the Manual of strategic planning in February 2007 issued by the General Secretariat of the Government of Republic of Macedonia.

Law on Financing of Local Self-Government⁸ obliges municipalities and City of Skopje to draft budget consists of general and special part and development part. Development section contains the plan of development programs of municipalities and it consists of medium-term projections of appropriations by individual budget programs and sub-programs, years during which they will be implemented and sources of financing, ie budgets. The plan of development programs are revised every year.

Taking into account certain differences in terms and some elements in the methodologies for the production of the above strategic plan documents, it is important to point out that the methodology for the development of the three-year strategic plans and the methodology for the production of the county development plans obliges the budget users to:

- make a status analysis;
- define the mission and vision;
- set general goals (strategic objectives);
- set specific objectives (priorities);
- define the ways to achieve them (measures);
- define key performance indicators (indicators needed to monitor outputs and development outcomes);
- establish a link with financial resources.

More detailed presentation of the elements contained in the strategic planning documents is provided below.

A status analysis is the first step to be taken in the preparation of strategic planning documents. It helps budget users grasp their own potentials and define their strengths and weaknesses and to realistically set the general and specific objectives, as well as avenues for their achievement.

The most frequently used tool to make the status analysis is the SWOT analysis, which is further explained in the Three-Year Strategic Plan Production Guidelines. With the help of this analysis, budget users may identify their strengths and weaknesses, as well as opportunities and threats from its surroundings, which may influence its operations.

Mission is the main reason of a budget user's existence and activity. It is recommendable that the mission statement contains the following elements:

- definition of the area of operations or an answer to: What is and what should be the task of the budget user?
- statement of values of the budget user.

Vision is the developmental direction that the budget user wishes to pursue in the long-run.

⁸ ("Official Gazette of Republic of Macedonia" no.61 / 2004, 96/2004, 67/2007, 156/2009, 47/2011 and 192/2015)

General goals (i.e. strategic objectives in the county development strategies) are statements as to what does a budget user intend to achieve during the next three years, i.e. they define the course and actions, so that the budget user may achieve its mission and vision by delivering on each of the set objectives.

Specific objectives (i.e. priorities in the county development strategies) are statements as to what are the most important areas that the budget user will be tackling in the three upcoming years, and what specific changes focusing on the achievement of a given general goal are expected to happen. They are more detailed than the general goals, the implementation timeframe is shorter and they help define the way of their achievement.

The ways for achieving the set goals and objectives (i.e. the measures in the county development strategies) encompass a group of activities that lead to the achievement of a specific objective, i.e. they point to the way in which the budget user's intended specific objectives would be achieved.

Key performance indicators (output and development effect monitoring indicators in the county development strategies) are objectively measurable or concrete signs that show what has been done to achieve the objectives. They may be defined as output and outcome indicators.

Output indicators are being set at such level that shows the way in which the set objectives/activities would be achieved. They provide information on the goods produced and services rendered. This set of indicators focuses on the operational aspects of an activity, i.e. the way for achieving the set objectives. They are easier to set and measure in practice. **They answer the question: How many services/goods have been rendered/produced?** (e.g. a total of 20 workshops for retraining the unemployed delivered).

Outcome indicators are being set at the level of specific information. They provide information on the efficiency, the long-term results and the social and economic changes attained via the delivery of specific objectives/programs. At times, outcomes may be seen only after several years have lapsed. They are less measurable, which makes their definition and measuring fairly complex. **They answer the question: What outcomes are being achieved with the implementation of an activity or a programme?**

Performance indicators are a useful management tool that enables measuring, monitoring, evaluating and improving the operations of a budget user. They play a key role in managing performance at all organisational levels and help evaluate the extent to which a goal or an objective has been achieved. Furthermore, they enable monitoring of the efficiency in service delivery in terms of their contribution to the achievement of the set objective.

Introduction of performance indicators and their adequate application is pivotal in measuring value for money, which is especially important in the public sector in which performance may not be measured by profits generation.

Introduction of performance indicators is also an important precondition for the development of a system of accountability for the results achieved. Performance indicators may help inform the Government, the Macedonian Parliament and the broader public of what individual budget users do and how well do they perform.

The method is more commonly used worldwide to measure performance, Balanced Scorecard is their method for which you can read more in Appendix 3 of this Manual.

All of the aforementioned represents key elements of a sound financial management and control system. Therefore, the obligation to produce strategic and county development plans represents an important step towards the development of the financial management and control system.

By preparing and developing their strategic planning documents, budget users are engaging in an extremely important activity in the financial management and control system.

The strategic documents, i.e. their compulsory elements (status analysis, vision, mission, goals and objectives, measures to achieve them, performance indicators and linkage with the financial plan) **represent the core precondition for the development of other financial management and control components**. Clear goals and objectives, their linking against a realistic financial plan, with a clear programme and economic classifications, well designed performance indicators that allow monitoring of goals and objectives, all this combined creates a sound environment, because it clearly shows the direction in which an institution moves. It defines priorities and allows the institutions to focus their resources and the way of performing its business towards the achievement of objectives.

The development of a planned approach to the operations in the Republic of Macedonia also needs to be looked upon from the angle of the Republic of Macedonia's EU accession process.

Given the obligation to prepare planning / programming documents for the withdrawal of pre-accession funds of the European Union, it is important sectoral and local strategic documents to be consistent with the objectives of the strategic documents of the Republic of Macedonia, ie strategic goals in all of these documents must to be uncoordinated.

Programme budgeting

Programme budgeting is a process that revolves around the definition of programs, their respective objectives and performance indicators, as well as around grouping of expenses and expenditure around the activities and projects that comprise a programme, whose implementation contributes to the achievement of a common goal.

The link between the goals and objectives, ways of their achievement and budget resources is contained within the programs. The programs provide an overview of expenses and expenditures broken down by activities and projects, focusing on the achievement of the given strategic objective.

The development of strategic planning on the basis of the Budget Act also imposed the need to develop programme budgeting.

Programme budgeting has been first introduced as early as in 2003. However, a quick shift from a line-by-line to programme budgeting created a situation in which majority of budget users most frequently understood programme budgeting as mere grouping of expenses around the activities and projects and their linking with the programs, without any clear definition of the programme purpose and objective.

The importance of programme budgeting stems from the fact that it represents a key link between strategic planning and budgeting.

The strategic planning documents (for instance, the three-year strategic plans, county development strategies, etc.) establish direction in which budget users are taking actions, whereas the budget establishes the resources needed to achieve the former.

Linking strategic planning and budgeting by way programs also encourages change in the way programs are being defined. For example, the central government budget users have reduced the number of their programs substantially. They defined programs that best reflect the area of operations of their budget users, while programme titles have been aligned with spending purposes. Strategic objectives and programs are now linked together.

At the central government level, the link between strategic planning and budgeting is being established through the so-called relational tables, whereby:

- specific objectives from a strategic plan are linked with a programme;
- measures for their achievement from a strategic plan are linked with the activities and projects.

At local level, the links between the following should be similarly established:

- priorities from municipality development strategies and the programs;
- measures from municipality development strategies and the activities and projects.

Such an approach allows better layout and greater transparency of the programme qualification and makes the budget user priorities more visible.

Definition of **programme objectives achievement and performance indicators** to measure the achievement of those objectives has also been introduced.

The purpose behind the introduction of the **programme objectives achievement** is to answer the following questions:

- What does the programme intend to achieve?
- How do we intend to implement the programme?
- Who are the final beneficiaries or service recipients?

Performance indicators need to be defined to monitor the programme objectives achievement. Performance indicators are the groundwork for measuring programme performance and are used for the budget execution reporting purposes. They pinpoint the low performing programs and encourage the budget users to ask the following questions of themselves: Is this service necessary? What is the goal of this service? What are the desired outputs? How can we create a service that would deliver such outputs?

Performance indicators serve as a mechanism that point to the purposefulness of and justification for making investments into certain programs. There may be possibilities for increasing the financial resources for the well performing programs, while the low performing programs are under threat of getting a portion of funding withdrawn or excluded from the budget.

Appendix 4 shows the tabular display of linking strategic and program planning in the case of ministries, city and municipalities.

Operational planning

Operational planning is an integral part of the planning process and is the function of further elaboration of human, material and financial resources, as well as of the activities needed to achieve the set objectives.

The operational planning exercise results in the production of operational planning documents, such as annual work plan, procurement, recruitment, investment, maintenance, equipment, training plans and other documents that contain a more detailed breakdown of material and human resources, as well as of the activities to be taken at the budget user and individual organisational unit levels. These most frequently refer to a year's period (for some of the documents the period can be longer).

The operational planning documents should ideally be connected with the strategic and programme objectives. That is to say, the structure of the operational planning documents should provide a visible link with the strategic and programme objectives, whenever possible.

The elaboration of the resources needed for the achievement of the set strategic objectives through the operational planning documents helps the day-to-day operations to be supportive of the achievement of the set strategic objectives and the associated programs, projects and activities.

According to the Law on Organization and Operation of the State Administration Bodies⁹, Minister, Director of the independent state body or administrative organization is obliged to make plans / programs and other acts for the implementation of laws and other regulations, when it is authorized by law. The annual work plan budget users are obliged to do in accordance with the Methodology for Strategic Planning and Manual for strategic planning¹⁰.

The annual work plans also contain data on the most significant risks that may influence the achievement of the set objectives.

The structure of the annual work plan can contain the following elements:

Purpose	Activity	Bearer	Assumptions for implementation	Deadline for implementation	Most important risks

Financial Planning –Proposed budget request (financial plan)

In a planning system that links together strategic, programme and operational planning, a financial plan is something derived from their combination.

A financial plan represents a monetary specification of the resources needed for the achievement of the set objectives.

⁹ ("Official Gazette of the Republic of Macedonia" no. 58/2000, 44/2002, 82/2008, 167/2010 and 51/2011)

¹⁰ Under the Government Act ("Official Gazette of the Republic of Macedonia" no. 59/2000, 12/2003, 55/2005, 37/2006, 115/2007, 19/2008, 82/2008, 10/2010, 51/2011, 15/2013, 139/2014 and 196/2015), the Government adopts annual work program as well as programs that define specific issues within the competence of the Government in order to define schedules and deadlines and financial plan for their implementation.

Given the fact that budget resources are scarce, one must take account of the financial restrictions when setting the objectives and defining programs, activities and projects. This is so because the priorities are being determined in dependence of the availability of the resources and the needs to be met.

Frequently, there is a perception that the production of a financial plan begins only after the Ministry of Finance have supplied the instructions for the production of the state budget proposal. However, this is only a technical part of the work in which budget users need to align their needs against the available resources in keeping with the set ceilings. This is when they are applying the prescribed methodology (way of producing the plan and deadlines) required to adopt a uniform approach to consolidating the financial plans and budgets into the state budget.

However, good preparatory work must precede this stage in terms of familiarity with integral needs for financial resources to be allocated for the planned achievement of objectives, i.e. implementation of programs, projects and activities.

The quality of the financial plans will depend on the extent to which all the needs for the achievement of the objectives, programs and projects have been realistically assessed and taken into account in the preparatory stage. It will also depend on how well the priorities have been established in the light of the available budget, whether or not the risk of a lack of funding of some projects was considered, whether alternatives have been elaborated on in case some projects and/or activities need to be abandoned or if they should be executed in a reduced scope, depending on the financial resources available.

Furthermore, the quality of the financial plans will depend on the comprehensiveness of expenses and revenues. For example, one needs to consider whether all contractual obligations have been taken into account, whether integral expense and revenue projections were made for the ongoing projects or the for the completed projects which will produce new expenses that did not exist before they were put into operation (e.g. a school that was built or equipment that was procured start generating new costs once they are put into operation), and whether measures for collecting all accounts receivable have been taken.

Financial plan preparation is a complex process, which among other things requires:

- linking the planning documents (strategic and operational plans) with the financial plans (e.g. using the prescribed templates for expressing the needs, which contain link against the objectives and programs, time alignment between procurement and financial plans preparation, etc.);
- definition of procedures, stakeholders and deadlines, e.g. who is authorised to express the need for financial resources to be granted and for which types of costs/revenues;
- definition of the manner in which the need for financial resources should be expressed (how should such needs be substantiated, what is required as the groundwork for the expression of needs) and the manner for controlling their justification and completeness;
- decision-making on the financing priorities on the basis of the programme, project and activity prioritisation list;
- assessment of what would be the impact of funding the proposed programs, projects and activities against the expected budget resources;
- coordinated financial plan production with the second- and third-level budget users, etc.

Difficulties in practical execution of a financial plan are possible even when the financial plan is well prepared in terms of all needs that have been realistically evaluated and taken into account, the funding prioritisation lists have been produced against the available budget, risk of a lack of funding of such project has been considered, and so on.

However, difficulties will most definitely be there and will be far more abundant if the financial plans were poorly produced.

While it is possible to poorly implement a well prepared financial plan, it is impossible to implement a poorly prepared financial plan well.

A sound financial plan or budget provides sufficient quantity of information in a way that makes it easier for the decision makers to distribute the scarce budget resources for the prioritised expenses efficiently.

When preparing a financial plan, one also must take into account the fact that a far greater number of stakeholders take part in the execution of the financial plan in comparison to the number of stakeholders involved in its preparation. This is precisely the reason why there is a need for having a sound communications system in place that would cover those who are preparing a financial plan and those who will be executing it. The “inputs” for the financial plan production need to be accurately communicated and feedback generated from past experiences in the financial plan execution need to be taken into consideration. A successful execution of a financial plan depends on many factors. However, the way in which budget users manage and control the budget resources is undoubtedly the most important amongst them. Efficient financial management and control systems will make sure that the financial plan execution follows its planning stage. It will also enable a more prompt and easier response to changed circumstances.

All organisational units should be involved in the preparation of a financial plan. So much so, the organisational units are responsible for the achievement of objectives and for carrying out the programs, projects and the activities. This is why they need to be in position to express their needs.

Since the developments in the budget system, and primarily the development of strategic planning and programming, are putting emphasis on the objectives and the results, the financial plan preparation exercise no longer focuses only on the amount and type of the planned cost. The focus broadens to include the intended outcomes of the planned financial resources, i.e. the objectives and results to be achieved.

The financial plan explanatory section is becoming increasingly important in the financial plan preparation exercise.

Pursuant to Article 23 of the Budget Act, budget users are obliged to produce and deliver their explanatory notes with their proposed financial plans.

The budget users need to indicate the following in the explanatory notes of their financial plans:

- a summary of the budget user scope of work;
- programme explanation (activities and projects);
- legal and other groundwork for the programs;
- objectives, strategies and programs aligned with the long-term development documents;

- starting point and indicators which served as the groundwork for the calculation and assessment of the financial resources needed to carry out a programme (activities and projects);
- report on the achievement of programme objectives and results on the basis of performance indicators from the scope of the budget user's competence a year earlier;
- other explanations and documentation.

A prepared strategic plan and the developed programs with the defined objectives and performance indicators represent the groundwork for the development of the financial plan explanatory notes.

These explanatory notes are the groundwork for making an analysis of outcomes and designing the future objectives. They also help direct the course of action and define respective responsibilities.

Planning at second- and third-level budget users (cultural, educational, health, etc. institutions)

The second- and third-level budget users (agencies, centers, etc., as broken down in the state budget) as well as budget users of local and regional self-government units (cultural, educational, health and other institutions) need to coordinate the production of their planning documents (work plans and programs, procurement, recruitment, investment maintenance, financial plans) closely with their competent budgets, i.e. with a ministry or a local or regional self-government unit under whose scope they fall.

The ministries, i.e. the local and regional self-government units are the holders of strategic policies. In addition, consolidation of financial plans and financial reports is being performed at their levels.

The three-year strategic plans are being produced at the first-level budget user, i.e. at the level of ministries. At local level, counties are the holders in charge of regional policies.

While preparing their strategic documents, the ministries and local and regional self-government units need to involve budget users from their respective scopes of competence (agencies, cultural, educational, health, etc. institutions), for they are key in the implementation of the strategic objectives. As such, they need to be involved in their design too.

Through partnership councils, counties need to involve not only their budget users but all other stakeholder, including cities and municipalities.

After receiving the budget preparation instructions from the Ministry of Finance, other ministries, and local and regional self-government units must produce such instructions intended for the budget users from their respective remits.

The second- and third-level budget users (agencies, centers, cultural, educational, health, etc. institutions) prepare their financial plans in accordance with the instructions received from their competent budgets. Moreover, the financial plans of these budget users must be explained in detail by providing:

- a summary of the budget user scope of work;
- programme explanation (activities and projects);
- legal and other groundwork for the programs;

- objectives, strategies and programs aligned with the long-term development documents;
- starting point and indicators which served as the groundwork for the calculation and assessment of the financial resources needed to carry out a programme (activities and projects);
- report on the achievement of programme objectives and results on the basis of performance indicators from the scope of the budget user's competence a year earlier;
- other explanations and documentation.

Conclusion

The development of strategic planning represents one of the most important steps towards the development of a sound public financial management and control system.

Strategic planning encouraged the budget users to start thinking about the vision of their operations, the strategic objectives and the priorities, the way in which the set objectives need to be linked with the budget resources, the analysis of the programs to date since the programs need to be associated with the set strategic objectives, the definition of performance indicators to help them measure the outputs and outcomes achieved with the budget money invested.

An intensive implementation of strategic planning has been running since 2009. However, due to the complexity of this process, it may be said with certainty that a systematic development of strategic planning in the public sector is still in its early beginnings.

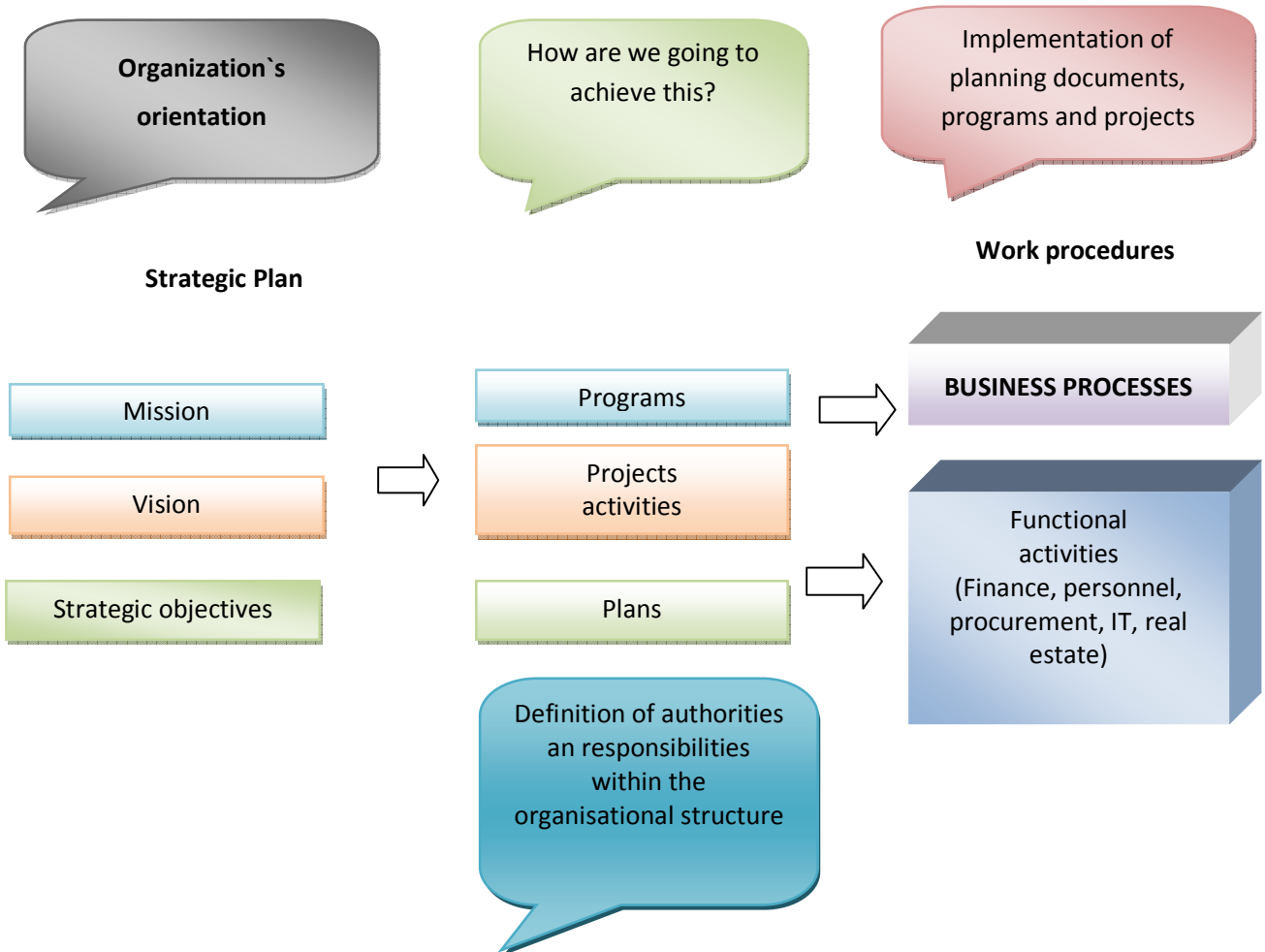
One thing must be highlighted though. Owing to the development of strategic planning and linking it with the budgeting processes, preconditions have been created for the development of financial management and control through all of its components. This process spurred the development of all other components, including the development of risk management, control activities, and information and communication system. Further, the development of strategic planning is also a driver of other changes in the organisational structures and the relations between the associated institutions. Nowadays, such institutions are also interrelated because of their implementation of strategic objectives, which in turn creates sound prerequisites for the development of managerial accountability for the objectives and the results achieved, as well as for the associated budget resources.

In brief, the development of strategic planning drives the development of a systematic approach to management, which includes clear setting of operating objectives, linking them with programs, projects, plans and the associated financial resources. In turn, this points to the need for having a clearly defined authorities and responsibilities.

In order to achieve the set objectives economically, efficiently and effectively, resources (money, people, assets) need to be managed well and business processes must be organised in a way that would make them supportive of the achievement of the set objectives.

All what was mentioned earlier needs to be contextualised and positioned within a budget user's organisational structure. Authorities and responsibilities need to be arranged here (definition of who does what and who do they report to on the objectives and results achieved).

A systemic approach to management



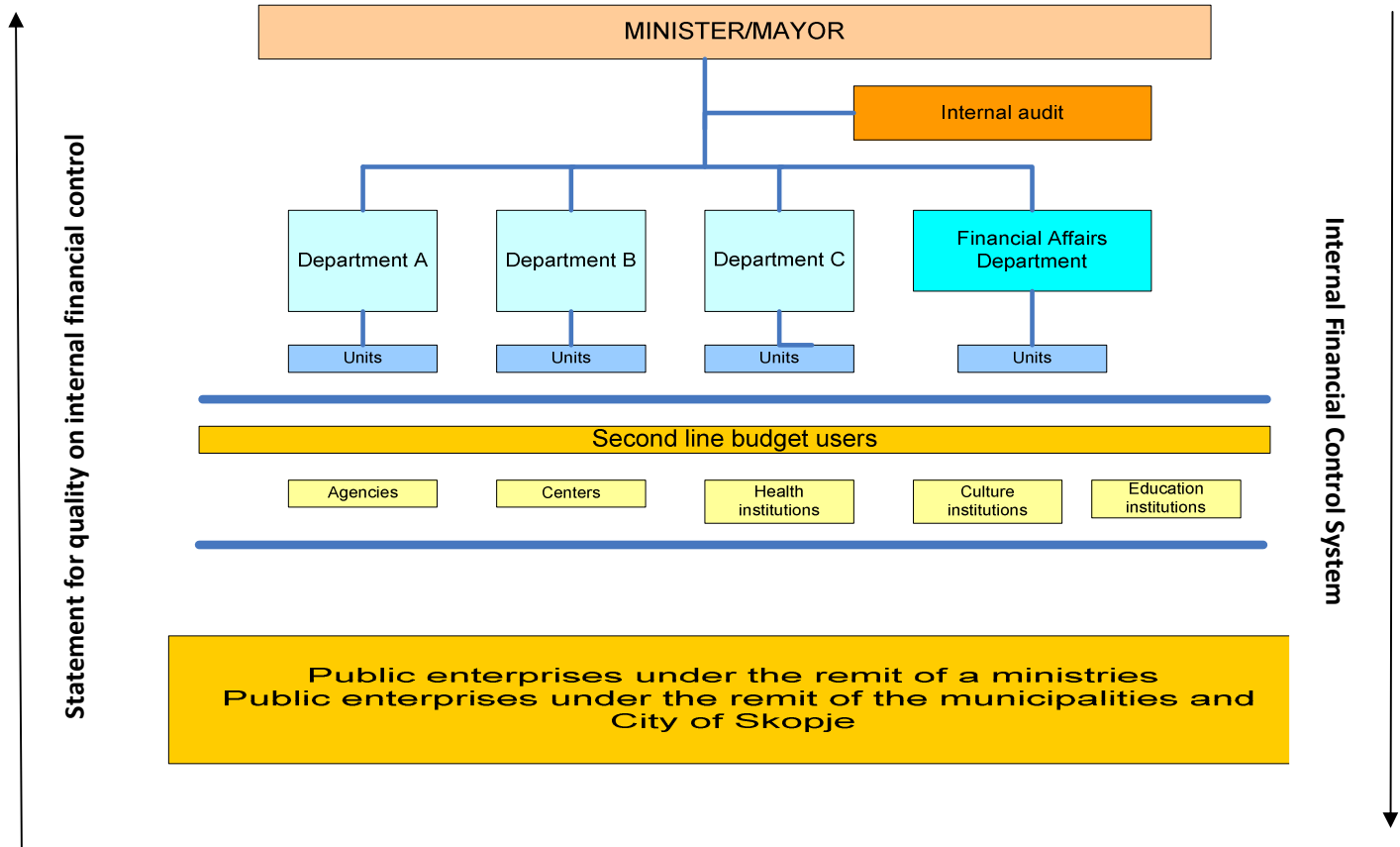


Figure No. 8 - A systematic approach to managing

4.1.4. Organisational structure, definition of authorities and responsibilities, reporting lines

Organisational structure

Organisational structure, i.e. internal organisation of a budget user, needs to be established in a way that ensures the accomplishment of the core functions of the budget user and its set operating objectives.

According to Article 3 of the Organization and Operation of the state administration bodies Act, state administration bodies its responsibilities defined by law pursue based on the principles of legality, accountability, efficiency, economy, transparency, uniformity and predictability. These principles can be applied to budget users at the local level.

In addition to the above, the financial management and control development also requires an adequate organisational structure, i.e. internal organisation of a budget user. It means that the structure needs to be set up to ensure that:

- there are clearly defined authorities and responsibilities for the accomplishment of the core operating structures within the organisational structure;
- the organisational structure, i.e. the way in which the directorates, sectors, services, administrative departments, etc. is adequate to allow the elaboration of the authorities and responsibilities for the achievement of the objectives and management of budget resources;
- the job descriptions of internal organisational units of the first-level budget users (ministries, counties, cities) clearly present their competence over the second- and third-level budget users from within their respective systems;
- the organisational structure is up-to-date in the context of operating charges stemming from changes in circumstances, regulations, objectives of operations, operating mode, etc.

All staff need to be familiar with the organisational chart to help them understand the organisation as a whole, the relations between different parts of the organisation and the way in which they fit into the organisation.

Definition of authorities and responsibilities

Acts of internal organization (the Rulebook on internal organization and the Rulebook for systematization of job positions) governing the workload of organizational units, or those acts contain descriptions of the duties they perform their the separate units.

Well arranged financial management and control system also requires a more detailed definition of authorities and responsibilities for the accomplishment of the set objectives and managing budget resources.

Authorities and responsibilities, tasks and reporting obligations concerning the achievement of objectives need to be clearly defined for each section of the organisational structure in writing and communicated to the staff.

The head of the budget user, authorizations and responsibilities for implementing the objectives and management of the budget in more detail regulated by the adoption of specific Decisions for giving

general or special authorization to implement the strategic plan and responsibility for the management of budget funds envisaged in the financial plan, or decision on internal distribution of the total approved budget.

It is recommended that the ministries appoint deputy or assistant ministers as persons responsible for the delivery of specific objectives, and assistant ministers or sector heads as persons responsible for the measures to deliver on the objectives. Persons appointed as those in charge of strategic plan execution – i.e. of individual specific objectives/implementation measures – are also responsible for the execution of a portion of the budget associated with such a specific objective/implementation measure.

With the Decision for giving/delegation the authority and responsibility for management of budget funds provided by the financial plan (Decision for internal distribution of the total approved budget), head of the entity governing the responsibility of managers for realization of the allocated budget.

The base for these decisions is the financial plan (Decision for internal distribution of the total approved budget) for the year in which expenditures and outflows are distributed by program, economic and organizational classification.

Budget user heads adopt the Decision on the Delegation of Authorities and Responsibilities for Management of Budget Resources Provided in the Financial Plan to define the responsibility of managers for the execution of budget resources.

The financial plan for a given year is the groundwork for the production of this Decision. It provides a breakdown of expenses and expenditures following the programme, economic, and classification, i.e. there is a breakdown by organisational units.

The managers of organisational units with the assigned authorities and responsibilities for managing budget resources are bound by this decision to also keep the needed records on the financial plan execution and to produce relevant internal reports (the purpose of budget resources spent, the amount of contracted commitments, modes of revenue generation, etc.). It also bounds them to reconcile the records kept at organisational unit level against the data at the disposal of the finance unit.

The process of drafting the Decision on the Delegation of Authorities and Responsibilities for Management of Budget Resources Provided in the Financial Plan need to take account of the decision of the budget user head by which he/she defines authorities for signing the payment orders to be debited from the budget, if such decisions exist in the institution. If there should be any in-year modifications or amendments to the financial plan, the adopted Decision on the Delegation of Authorities and Responsibilities for Management of Budget Resources will also need to be updated.

Pursuant to the recommendation of the Ministry of Finance in respect of the appointment of persons responsible for delivering the objectives, it is recommended that the system of authorities and responsibilities be attached to the deputy or assistant minister level, while the responsibilities for projects and activities should be attached to the level of assistant ministers or sector heads involved in the given programme.

Each project and activity may be put under the responsibility of one person only, with that the same person may be responsible for the implementation of several programs, i.e. projects and activities.

The Decision on the Delegation of Authorities and Responsibilities for Management of Budget Resources are difficult, in fact, impossible to implement in those institutions where the objectives have not been clearly set, or where programs are being carried out across several organisational units. Definition of

individual responsibilities is difficult if the budget or financial plan is not elaborated on by organisational units.

Practical implementation of the above decisions in the first-level budget users reveals some difficulties. First of all, it requires the existence of an arranged organisational structure by units in terms of establishing links between strategic objectives, programs (projects and activities) and the financial plan.

The delegation of authorities and responsibilities does not exclude the ultimate accountability of the budget user head. Rather, it provides a clearer and a more specific definition of the responsibilities the managers of internal organisational units have for the delivery of objectives, spending and controlling the budget resources.

Reporting lines

Reporting lines need to be developed in parallel with the development of lines of authorities and accountabilities. Senior level management need to have timely information at hand to see whether or not lower level management deliver on what they are expected to, if they deliver in accordance with the agreed operating rules and how well do they perform.

To that end, there is a need for the development of internal reporting system, primarily on the achievement of the set objectives, budget resources management, etc.

The purpose of internal reports is to provide senior level managers with information that would enable them to adequately supervise the way in which revenues, expenses, assets and liabilities are being managed and the way in which the planned objectives are being achieved across the organisation.

Those budget users who have second- and third-level budget user within their structures need to have well developed reporting lines to communicate with the budget users under their scope of competence. This would provide timely information needed to supervise the operations and to detect possible difficulties and take adequate remedial measures on time.

More details on the reporting system may be found in Chapter 4.4. on information and communication.

4.2. Risk management

The development of financial management and control also requires the development of risk management in a systematic way and by creating such an environment in which the discussions about risks would be a part of everyday operations.

Risk management may be said to be developed as much as the control activities are. Control activities then focus not only on the issues of legality and regularity but also on making sure that the set objectives will be achieved.

Worth mentioning is that risks are inevitable in day-to-day operations. Therefore, budget users need to take adequate actions to be able to justify what is the acceptable level of risk they are willing to take.

Risk management and control has been defined in the Public Internal Financial Control Act as a comprehensive process of identifying, assessing and monitoring the risk, taking into account the budget user objectives, and of taking the necessary actions, especially through the financial management and control system, for the purpose of mitigating such risk.

This is an ongoing cycle. It covers risk identification, assessment of risk likelihood and impact, taking measures to address the risks, documenting the data on the most significant risks, as well as risk monitoring and reporting.

Risk management enables good quality decision-making, better forecasting and optimisation of the available resource, dealing with priorities and avoiding future problems that might appear during the course of one's working towards the set objectives.

If we fail to consider potential events that might pose difficulties in the achievement of objectives and if we fail to consider possible measures for their mitigation in the planning stage, these events will come up as a problem for us in the future and will frequently require us to react quickly. Most frequently, these quick responses focus on dealing with the consequences. By managing the risk, however, we are trying to deal with the cause of a possible problem.

If the key risks are detected and adequate control activities taken on time, it means that those financial effects that would necessarily be created to remedy the problem would be avoided.

Therefore, potential events that might cause difficulties in the achievement of objectives have to be considered while setting the objectives, organising the operations, making business decisions, etc.

Risk management as a part of planning and decision-making process

In keeping with the international internal control standards, the financial management and control system requires making risk assessment an integral part of the existing management processes.

In order to make risk management an integral part of the planning and decision-making processes, it is necessary for every budget user to keep building such an organisational culture which will allow them to think of possible risks in the course of the development of their planning documents (strategic, operational and financial plans), and make the communication on the risks identified a common practice at the level where adequate decisions are being made. This is because the decision makers need to have information at hand on the risks associated with the decisions they are making.

Risks appear in various stages of a management process. Key areas in which management needs to identify the most important risks and take actions to manage and control them are presented below.

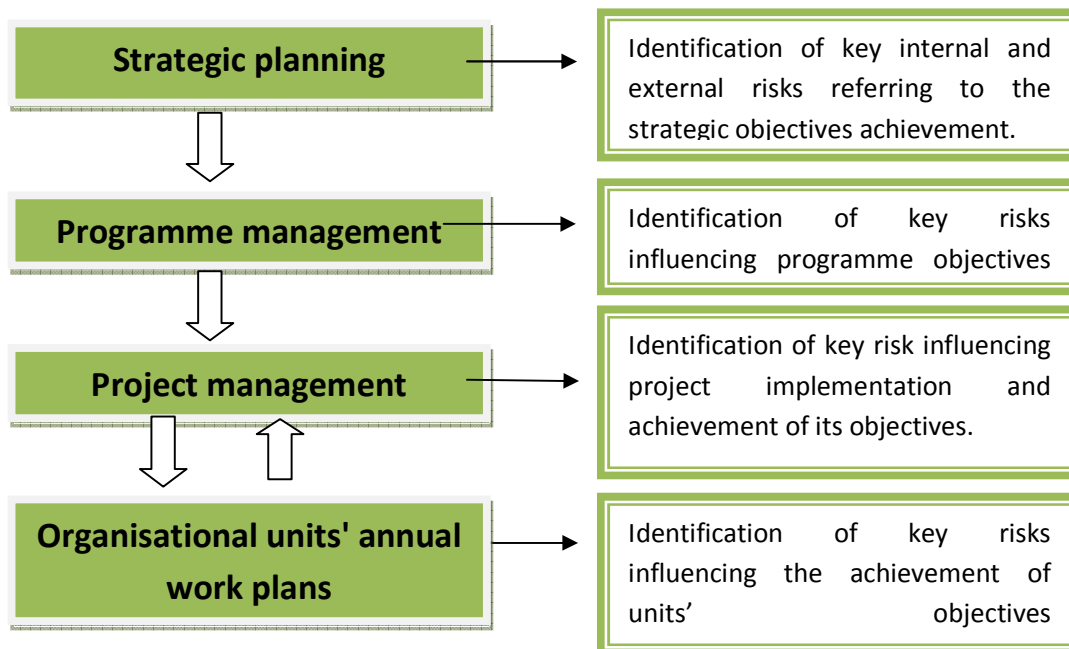


Figure 9 - Key risk identification areas

Responsibility for managing risks

It is important to point out that all managers are responsible for managing risks at their levels. This implies the identification of the most important risks and taking adequate measures in order to minimise them.

Importantly, if persons in charge of gathering risks at the level of organisational units get appointed, which is a common practice with most budget users, their role is to gather the risks and record them in risk registers. But, they can in no way be a substitute for managers' responsibility in terms of risk identification and management.

Documenting risk data

Risk data needs to be documented to make sure the system is informed of risks and in order to facilitate monitoring of data on the most important risks.

It is recommended that the budget users document (note) the most important risks in their planning documents.

The most important risks need to be indicated along with the objectives spelled out during the course of the strategic documents production. When they are developing their annual work plans (programs) or during the course of preparing important projects, the internal organisational units also need to indicate key risks that might jeopardise the execution of the planned activities.

In addition to their inclusion in the planning documents, detailed risk information (description of risk with cause and effect, assessment of likelihood and impact, who is responsible for monitoring individual risks and the like) may be contained in the risk register.

Risk reporting

Organisational units are responsible for delivering on individual objectives, i.e. for carrying out the planned activities. In doing so, they need to identify risks which may influence their execution.

Everybody needs to identify risks and take adequate mitigation measures at their level. The next (superior) organisational unit needs to be informed of risks relevant for that managerial level. For instance, risks are being identified and addressed at sector/service level. However, those risks that require involvement of and discussion at higher managerial level would be referred to the next level (directorates). At the sector/service, i.e. directorate level, managers will manage an average of 10 to 15 most important risks under their remit.

At the level of a budget user, there will also be an average of 10 to 15 most important risks that will result from a bottom-up risk identification exercise. There will also be other risks that top management might have identified, as seen in the figure below.

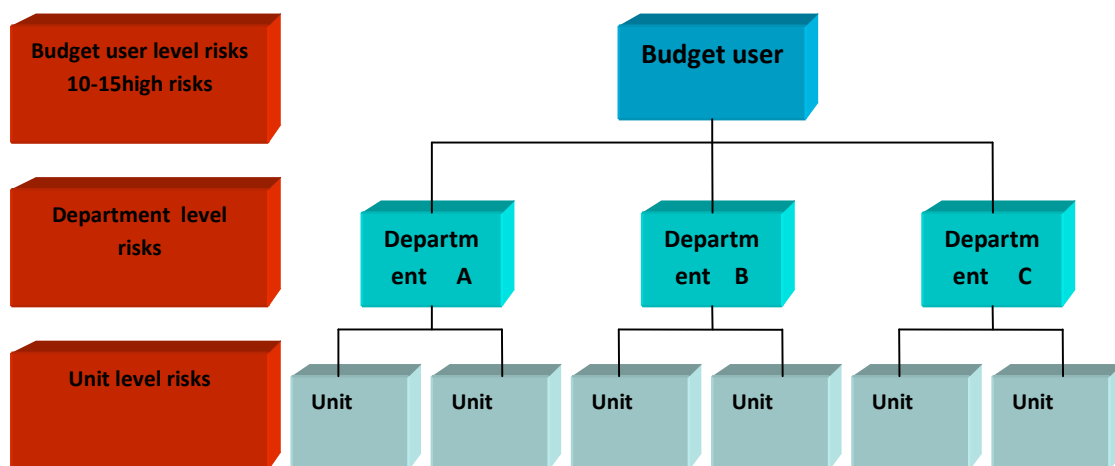


Figure 10 - Budget user risk reporting model

Risk management strategy

Pursuant to Article 15 of the Law on public internal financial control, budget users in the field of legislative, executive and judicial authorities (central government) funds, municipalities and City of Skopje shall adopt a strategy for risk management, which is updated every three years in cases where risks significantly change.

The strategy sets a systematic framework for and a structured approach to risk identification and management at budget user level. Its purpose is to describe the way in which the budget user intends to implement risk management in a systematic manner, by defining the roles and responsibilities, risk management process methodology, management of risks referring to affiliated institutions, modes of communicating the risks across the organisational structure and training.

Other budget users (agencies, centers and institutes that are second-level budget users, municipalities, health institutions, schools, kindergartens, etc.) are not obliged to adopt risk management strategies. However, they need to identify and manage the most important risks that might influence their operations. At a request from a budget user in charge of them, they also need to report on such risks.

Central Harmonization Unit prepare a draft structure and content of a strategy for risk management (an example of ministry) to help budget users in preparing their strategies for risk management.

Assumptions for an effective budget user risk management

In order to avoid the understanding of risk management as a one-off activity to be carried out by lower level management and staff and a situation in which senior management does not want to be exposed to risk that might point to their own weaknesses, certain assumptions need to be fulfilled:

- risk management is supported by top management and the staff;
- all staff are involved, aware that operating risks exist and they monitor them;
- risk management is an integral part of the strategic and annual planning processes;
- risks and risk management are seen as an opportunity for evaluating the strategic policies and decisions; the meetings on the development and approval of budgets/financial plans, performance appraisal; project planning and management and cooperation with key budget user partners;
- updating of risk register regularly carried out by senior management.

In addition to these risk management assumptions, there is a need to raise awareness of managers and staff as to the importance of risk management.

More details on risk management may be found in the Budget User Risk Management Implementation Guidelines at: <http://www.finance.gov.mk/mk/node/679>

Conclusion

To manage risks means to look into the future, to think ahead of the potential events that may emerge, the impact and the effect that a budget user may face in the future, and to take timely measures in order to minimise risks, and therefore to avoid or mitigate the associated adverse impact.

To detect key risk on time and take adequate control measures means to avoid those financial effects that would necessarily be generated in order to reduce the problem, but also to avoid negative reputation due to the operational failures.

Managers who are in charge of the operations and the achievement of the set objectives are at the same time key persons in charge of managing risks. They need to understand risk management as an integral part of their work, especially when they are making decisions.

4.3. Controls

4.3.1. Controls in general

Controls include numerous procedures and measures that the budget users take in order to reduce the level of risk with a view to achieving the set operating objectives.

The purpose of control activities is to ensure legality and regularity of the operations, economic, efficient and effective utilisation of revenues, expenses, assets and liabilities and to prevent illegalities and irregularities, unauthorised taking and handling of assets and other resources available to a budget user.

Control activities cannot be considered as an isolated element. Rather, they should be observed as an integral part of the entire system of internal financial controls, because the way of their design and application depends on how they interrelate with other components.

The most pronounced property of control activities is their interdependence with other components.

The manner in which control activities have been developed and their versatility are a reflection of how well other components of a system of internal financial controls have been developed. It goes also the other way, if other components are at a better state of development, control activities will be far greater in terms of their quantity and versatility.

In a system characterised by a developed planned approach to the operations, a systematic approach to risk management, a more detailed arrangement of an internal reporting system, there will be much more and versatile control activities than just those “classical control activities”, which most frequently focus just on whether or not resources have been secured in the financial plan to make payments.

Control activities are dynamic and subject to change. They must develop over time in order to be able to respond to the external factors, risks, changed priorities, technical accomplishments, changes in organisational relations, etc.

Control activities are being modified at the initiative of management or as a response to the findings and recommendations made by internal and/or external audit.

It is important that control activities be cost-effective, i.e. cost of control should not exceed the benefit gained.

Managers need to assess cost and benefits of control activities and carry out those control activities that are necessary for the attainment of the entity’s objective at a level of risk they deemed acceptable.

The level and application of control activities must be founded upon a reliable risk analysis and commensurate to the risk involved.

A lack of a given type of control activities at a point in time or in a stage of a process does not necessarily mean that there are weaknesses in the system of internal financial controls if there is a control elsewhere that efficiently compensate for the non-existence of the former.

In order for the control activities to be efficient, they need to be applied consistently. The established control activities need to operate consistently as planned and at all times, they need to be carried out by all staff involved in their operation, and should not be overridden when key staff are away or scope of work too large.

Any discrepancy from the standard procedure must be justified, substantiated and communicated on time to the persons authorised for approving such a discrepancy or an exception from the standard procedure.

Especially important is that control activities be documented. There has to be an audit trail as to what was controlled, who and when exercised control. **This is the reason why checklists, templates, forms, written or electronic trails of the control activities conducted are especially important.**

Further, **control activities**, procedures and measures they encompass, the manner of their application and the stages of a process in which they apply, as well as a listing of who is authorised and responsible for exercising them should be more thoroughly **provided for through written procedures.**

4.3.2. Written rules – procedures

Control activities are founded upon written rules and procedures. While some of those are already contained in legal regulations, internal procedures need to be produced in order to arrange control activities in detail.

Budget users are required start from the application of laws (the Budget Act, the Public Internal Financial Control Act, the Public Procurement Act, etc.) and adopt their internal regulations (instructions, guidelines, ordinances) to provide more thoroughly for the procedures, the definition of authority and accountability, and the control procedures.

What is especially important is that internal regulations or procedures need to provide for the processes falling under the budget cycle. This specifically goes for strategic planning, financial plan production and execution, procurement and contracting, recording business events and transactions, (tangible and intangible) asset management, collection of own revenues, recovery of unduly spent or wrongly paid budget resources. A large number of organisational units are directly or indirectly involved in the application of the above processes. This stresses the importance of having a clear definition of the rules of procedure, the participants with their authorities and responsibilities, the control procedures, prescribed templates, forms and other similar issues that need to be arranged.

The following section presents some recommendations concerning the elements that may be incorporated in the internal regulations (instructions, guidelines, etc.) that provide for the key budget cycle processes.

- **strategic plan production and execution** may be more thoroughly provided for by defining: who is responsible for its preparation, who are the participants, authorities and responsibilities for setting the strategic objectives, strategic objective progress monitoring, coordination of strategic plan production with the second-level budget users, etc.
- **financial plan production and execution** may be more thoroughly provided for by defining: who are the participants, the deadlines, authorities and responsibilities for the expression of need, evaluation of justification of the needs expressed, coordination of the production of financial plans and other planning documents, the participants, authorities and responsibilities for the financial plan execution, procedures in case of a need for spending beyond the planned ceilings, procedure in case of discrepancies between the execution and the financial plan, supplementary budget procedure, etc.
- **business event and transaction recording process** may be more thoroughly provided for by: indicating the modes of recording business events and transactions that appear during the course of operations, modes for processing material and financial documentation evidencing the

business events, control procedures while checking documentation for accuracy, documentation keeping and archiving procedures, etc.

- **procurement and contracting process** may be more thoroughly defined by specifying: who are the participants, the deadlines, authorities and responsibilities, modes for making reconciliation between the procurement and financial plans, the records of contracted commitments and reporting, etc.
- **asset management processes** (tangible: property, vehicles, equipment, computers, inventories; and intangible: licenses, intellectual property) may be more thoroughly provided for by defining: recording procedure, access rights, asset maintenance, asset inventory procedure, asset valuation, write-off and disposal, etc.
- **own revenue collection process** may be more thoroughly provided for through accounts receivable records, collection of the amounts due, procedures in case of receivables overdue (warning notes, enforcement, statute of limitations, bad debt write-off), etc.
- **process of recovery of unduly spent or wrongly paid budget funds;** for cases when it is established that monies have been spend unduly or paid wrongly after the event has happened, a more detailed procedure for recovering such amounts may be designed.

The first-level budget users and local self-government units which have second- and third-level budget users within their composition need to take account of the fact that their written procedures relative to the strategic plan production and execution, the financial plan production and execution, budget, procurement and contracting, ex-post controls and similar should also provide for the modes of cooperation and the activities that their subordinate budget users are expected to take.

Just like the budget users who are subordinate to the local self-government users, the second-level budget users (agencies, centers, etc.) also need to arrange their processes, such as assuming commitments, contracting procedures, invoice records and the like.

As a rule, finance and budget units launch the production of internal regulations that provide for budget processes. However, it is especially important that other organisational units also get involved in the design and preparation of internal regulations. It is also recommended that the budget user head signs such internal regulations.

4.3.3. Types of controls

Controls may be broken down to **ex-ante and ex-post controls**.

Ex-ante controls include control activities that focus on achieving legality and regularity of financial and other decisions and are being conducted:

- a) before a financial decision has been made, i.e. before making a decision on the use of budget resources;
- b) during the course of the execution of financial decisions, closing with the payment stage.

Ex-post controls include control activities that focus on ensuring legal, purposeful and timely collection and utilisation of budget and other resources, achieving the expected results and detecting potential errors, discrepancies and irregularities. They are being conducted after a financial or other decision has been made or after the completion of a business process.

The following sections will provide more detailed explanation of some of the control procedures and measures. Examples will be provided to show how they can be applied in key areas for financial management and control, including management of revenues, expenses, assets and liabilities, procedures of contracting and recovering the unduly paid amounts.

Authorisation procedures

The authorisation procedures are ex-ante controls that ensure that certain transactions and business activities are taken only after they have been checked for legality and regularity, after checking the availability of financial resources for their execution, making a cost-benefit analysis, checking how justified they are, etc.

It is important to make sure that transactions and business events are executed only after they get authorised by persons under whose scope of competence such authorisation is and only after the ex-ante checks have been performed, including for example:

- checking the legality and regularity of the proposed transaction (e.g. request for subsidy disbursement is compliant with the subsidy criteria...);
- checking the availability of budget resources (e.g. resources to procure of a piece of equipment included in the financial plan...);
- checking purposefulness and justification of the needs expresses (e.g. the need for a new piece of equipment is in line with the development activities...);
- checking cost-to-benefit ratio of and justification for an investment (cost-to-benefit ratio and justification of investments in new equipment, building a new school...).

No expenditure or expense can be executed unless there was a prior authorisation for them and unless there is a documented trail of what was controlled before the expense authorisation and payment approval.

Authorisation procedures need to be defined (prescribed forms for making equipment procurement proposals, forms for proposing new projects, prescribed criteria for granting subsidies, other benefits, etc.). Further, authorities have to be clearly assigned in terms of who authorises what and on what grounds.

Ex-ante control procedures are especially important in case of investment projects, which include investment in new asset formation and value preservation, investment in land, buildings, equipment and other fixed and intangible assets, the development of new technologies, improvement of quality of living and other investments intended to bring about benefits.

As a rule, fixed capital formation requires sizable financial resources, not only for the development of new buildings and procurement of new equipment, but it also requires financial resources needed in the future for maintenance, exploitation of the investment made, etc.

Budget users should take responsibilities for investment projects even more professionally conducted to assess the feasibility and effectiveness of the investment project.

This means that , before the development of a new or upgrading an existing building (e.g. building a sports hall, a pool, procurement of more expensive equipment, etc.), it is necessary to make an evaluation of justification and efficiency of the project or investment.

A problem that frequently appears in practice may be found in the fact that there is no integral consideration of the operating cost associated with an investment project in the long-run. After time, difficulties appear with funding, i.e. there is a lack of funds for maintenance and investment exploitation.

For instance, there are cases where a piece of equipment procured or a building developed (sports hall, pool, school) is not being used or is used only partially. This exemplifies an unnecessary investment that tied in the funding sources without yielding adequate results.

Any investment project should have a document to indicate the project purpose and objectives, explanation of the grounds for project preparation and implementation (a link with a relevant piece of regulation and/or strategic plan), expected output indicators, links with other projects (if any), project financing information (sources), the needed financial resources itemised by types of cost, financing dynamics, possible risks, etc.

Exceptions recording and authorisation

The cases in which exceptional circumstances necessitated an override of or deviation from the established procedures and courses of action need to be documented, substantiated and authorised at an adequate level before taking any further measures.

For instance, if there is a need to execute expenses which have not been planned, the relevant requests need to be substantiated in detail, options for their execution discussed, and necessary explanations and approvals obtained.

Authority and responsibility delegation procedure

Authorities and responsibilities need to be clearly defined, formally established and assigned to individuals.

Responsibilities of managers and all staff concerning their respective roles for the achievement of the objectives and management of budget funds must be clearly defined. The delegation of authorities and responsibilities to other staff for the execution of certain assignments and tasks does not exclude budget user head's and manager's accountability for the matters they have delegated.

The delegation of authorities and responsibilities should be made in writing with a clear description of jobs and tasks, and with a clear definition of the authorities and responsibilities delegated.

Principle of segregation of duties

Principle of division of duties as an extremely important control activity is highlighted as a separate provision in the Public Internal Financial Control Act (Article 16, paragraph 1, item 2).

The starting point for the principle of segregation of duties is that no single individual may at the same time be responsible for initiating, authorising, recording and reconciling a transaction and reviewing pertinent statements.

The purpose of the principle of segregation of duties is to reduce the possibilities for allowing a situation where a single person can make and hide errors, irregularities and fraud while performing his/her duties.

When delegating authorities and responsibilities, budget user heads must take account of the principle of segregation duties.

Double signature system

The double signature system links back to the principle of segregation of duties. A minimum of two signatures on documents (procurement requisitions, contracts, invoices, payment orders, etc.) prove that one person has prepared a document and another has checked and approved the document.

Importantly, the signature on the documentation itself does not constitute a control activity unless the person who signed it has checked it for contents. Double signature or four-eyes control will not be efficient enough if the next person to sign pens the signature down mechanically, expecting that the previous person has performed all checks required.

Application of the segregation of duties principle with smaller budget users

Due to a lesser amount of staff working in such positions, the smaller budget users (schools, kindergartens, museums, etc.) may face difficulties in the application of the principle of segregation of duties and double signature in key budget cycle processes. That is to say, they are not able to apply the principle in practice. Since increasing the number of staff most definitely would not be an economical solution for them, this problem may be addressed in two ways:

- a) by introducing an intensified supervision (managerial control) in order to prevent the risk of omissions or potential errors, irregularities or abuse of such situations;
- b) by considering options for centralising certain processes and tasks at the level of their competent budgets, local and regional self-government units. This requires a clear definition of which tasks should be performed centrally (at the competent budget level), and which may be performed by the budget user itself.

Procedures for safeguarding assets and information against loss and damage

Adequate physical controls need to be put in place in order to safeguard the assets and information of a budget user.

The level of physical controls needs to be commensurate with the risk involved, the impact of a temporary or permanent loss of assets or unauthorised taking.

Physical controls include control of access to assets (buildings, equipment, etc.), such as video surveillance, alarm systems, fire protection, identification of persons upon their entry to buildings and premises, computer passwords, etc. In the cost-benefit context, one needs to consider the issue of the safeguarding of assets to see whether a security company should be contracted to assume a portion of asset protection risk or to use own staff for that purpose.

Physical control also includes asset inventories, which are being produced to see whether or not the assets exist, if they are in the right place and used properly.

Regular maintenance of assets (equipment, plants, vehicles and the like) via servicing, repair, replacement of spares, etc. is an important procedure for safeguarding and maintaining the value of assets.

The purpose of procedures for the safeguarding of assets is to ensure the adequacy of the assets for use and to reduce the risk of sudden damages and failures, and the associated cost.

Important control procedures for the safeguarding of assets include planning the asset replacement, quick repairs of any damage, regular asset servicing and maintenance.

Timely planning of replacement of those assets whose life cycle is nearing its end is one of the ways to prevent the unexpected losses from happening. For instance, a motor pool replacement programme can be planned for on time, given the fact that the useful life cycle can be easily determined for vehicles. However, one does not need to stick with the planned timelines rigidly at all times. Rather, someone should check the vehicle servicing logs, the state of repair and the frequency of failures, and then make a decision on when a vehicle should be replaced.

Quick repairs of damages are also an important procedure to preserve the assets, because untimely repairs of, e.g. damages to the roofing, may cause far greater damage and loss.

Additionally, procedures for handling the written-off assets should also be clearly defined.

Procedures ensuring the accounts receivable collection

Budget users need to take all the necessary steps to collect on their receivables. Primarily, they need to make sure they have complete and up-to-date records of all accounts receivable.

Procedures for processing the outgoing invoices, the measures to be taken in order to collect the accounts receivable and handling the overdue receivables also need to be provided for and made available to the staff who should be applying them.

It is also important to establishing good communication among the organisational units (directorates, administrative offices) in charge of issuing invoices and the finance units which are in charge of recording the outgoing invoices. This is needed in order to record all the receivables in a timely fashion, but also to detect possible problems with the collection on time and take measures required to collect on the receivables.

Receivables collection analyses need to be produced and measures in case of overdue amounts taken (warning letters, enforcement).

The basic rule is that one needs to take all measures required to collect the proceeds. Any accounts receivable write-off proposal has to be substantiated in detail and approved by person authorised to perform such an action. All receivables write-offs need to be recorded.

Procedures with regard to assuming contractual obligations

The assumption of contractual obligations needs to be regulated through a written procedure, which needs to specify clearly who starts a contracting procedure and how, who and when shall check to see whether procurement is compliant with the financial plan, and whether the procurement procedure launched is compliant with the procurement plan, who and when will make an additional check of the

actual need for the procurement object, and who is in charge of authorising the launch of a procurement procedure.

When entering into a contract, it is especially important to take account of incorporating payment security instruments into the contract, instruments to secure the quality of goods, works or services delivered, stipulations dealing with remedying the weaknesses in the warranty period, stipulations on contractual penalties in case of deviations from the contractual obligations, and any other issues that need to be provided for in respect of ensuring the quality of the goods, works or services delivered.

In case of taking commitments by budget users and individual users in the programs covered by the development part of the budget, the payment of which require the use of budget funds in the following years budget users or spending units have to obtain prior approval of the Government of the Republic Macedonia upon prior opinion of the Ministry of Finance and budget users of first and second line and municipalities provide consent from the competent authority.

According to Article 45 of the Budget Act, budget users of first and second line of the central government is obliged to report the commitments for registering in the single database for commitments in the Treasury.

Payments arising from multi-year liabilities, budget users have an obligation to include in the budget request¹¹ of budget user for the year in which the liabilities due.

The control of future spending is one of the core instruments of a sound financial management system, since it represents a significant instrument for retaining or reducing public spending within the foreseen macroeconomic framework.

Without an approval from an executive body in charge, budget users are not allowed to enter into procurement contracts by which they would assume commitments to be debited from the budgets of the upcoming years.

The overall spending at budget user level is being controlled through the mechanism of asking for and receiving approvals for the assumption of commitments coming due in upcoming years. The provision of such approvals verifies fiscal sustainability and acceptability of commitments created.

Procedures for complete, accurate, regular and up-to-date recording of business transactions

Material and financial documents that prove business transactions, such as bookkeeping documents (invoices, warehouse warrants, notes of receipts, posting orders, calculations, etc.) and contracts, decisions and other documents on the basis of which liabilities are being created need to be recorded and processed regularly, accurately, completely and timely.

Actions for processing and recording material and financial documents need to be provided for in written procedures, which have to clearly show what is being controlled and by whom, in what stages of a business process the control is being exercised, what documents are being used for control purposes (templates, checklists, etc.) and data to be entered into the records.

¹¹ Under Article 22 of the Budget Law "Budget users of the central government and the funds shall prepare draft budget request for their activities covered in the programs and sub-programs, in accordance with the instructions and guidelines contained in the Circular for the base budget, the donation budget, the loan budget of fundraising activities. "

Written procedures for processing and recording the bookkeeping documents (invoices, warehouse warrants, notes of receipts, material orders, etc.) are especially important. These should clearly define who is in charge of receiving the invoices, who accepts the goods/works/services, which documents are to be completed at that point (checklists, acceptance minutes, etc.), who is in charge of verifying the type, quantity and quality of goods/works/services and how should this be performed to see whether the received is compliant with what was ordered/contracted.

Those organisational units whose contracts are the basis for the delivery of invoices (directorates in ministries, administrative/city offices in counties/cities) perform the first-level check. The aim of this control is to see whether the invoiced delivery matches the actual one, whether the goods/equipment delivered, services rendered or works executed are compliant with what was contracted.

It is recommended that the organisational units in charge carry out these substantive controls with the help of checklists containing questions on all that needs to be checked.

The completed checklists are then enclosed to the invoice and constitute evidence of substantive controls performed.

Heads of the competent organisational unit (or another authorised person) approves the invoice with his/her signature and forwards it for further processing to the finance unit within a deadline that also needs to be clearly specified.

The organisational unit in charge of finance will perform formal checks of all invoice elements and arithmetical control, after which it will approve the recording of the invoice in the accounting system, followed by a payment order observing the due date.

A checklist containing all the questions that need to be checked may be used for the purpose.

Furthermore, material records with data on assets (building, equipment, office furniture, motor pool, inventories, etc.) should contain up-to-date, accurate and complete data for the asset management purposes.

In addition to the compulsory type data (type of assets, their value and quantities), it is also recommended to keep more detailed records for material assets. This refers to assets especially relevant for a budget user's operations.

For instance, more detailed data could be kept for significant assets including those, e.g. on date of manufacture, name of the manufacturer, equipment model, group of equipment, chronological equipment maintenance log (servicing intervals, repairs, replacement of spares), etc.

Asset inventory records (e.g. inventories of materials and medicaments in hospitals, military/police ammunition stock, pool cleaning chemical agents in sports and recreational centers, school consumables, office stationary, stock of salt for winter road maintenance in the utilities, etc.) should provide up-to-date information as to the status of stock, their location and the quantities.

Such data are required for an efficient stock management, and they should strike a balance between keeping sufficient stocks for the performance of activities with a minimal risk of causing suspension or difficulties in carrying out the essential activities, and the least possible cost of keeping such a stock.

Inventories are an organisation's money tied in, that would otherwise be utilised for some other purposes. They are equally valuable assets that enable a budget user to operate without any interruptions and delays in performing the inventory-consuming activities.

The task behind inventory management revolves around striking a balance between these two aspects of inventories. It is, therefore, important to have complete, up-to-date and accurate records of business transactions relative to the inventories, in order to make it easier to:

- identify the inventory-consuming activities and the existing inventory needs;
- make a valuation of the identified activities with a view to reducing the inventory needs, taking into account the need for minimum inventory to be kept in order to prevent serious consequences arising from a lack of inventories from happening;
- identify the inventory replenishing quantities and schedule, as well as the most efficient stock keeping and procurement manner;
- identify and minimise the inventory keeping costs.

Keeping detailed records on the inventory status may be costly and not always adequate. That is to say that keeping of such records might be more adequate for those budget users who have highly valued assets (equipment, inventories, etc.) or those exceptionally important for their operations.

Work instructions and adequate staff training

Work instructions and adequate staff training are important elements that ensure staff understanding and course of action in observance of the procedures applied by a budget user.

The staff that is supposed to apply the written procedures in their work need to have those available, and the staff needs to be familiar with the procedures. At times, in addition to be supplied to the staff, the procedures also need to be presented to them. The purpose is to make the staff more familiarised with the procedures, and to give them an opportunity to get more detailed explanations of the procedures that they will apply in their work.

The staff may be required to make a written statement to confirm that they have taken note of the written procedures and that they are familiar with their contents. In case they might have any specific questions or points to be clarified, there should be a note on who should they turn to in order to get more detailed explanations.

Work instructions and adequate staff training are important, e.g. for employees who handle specific equipment or devices in their work. Such instructions and training would contribute to reducing operating mistakes, irregularities and extravagance, risk of fraud, etc. Ultimately, they would contribute to the achievement of the set objectives.

Monitoring the control procedures

Control procedures need to be monitored on an ongoing basis in order to make sure that controls are being carried out as intended and that they get modified in accordance with the changes and circumstances in the environment. The identified weaknesses in control procedures should be recorded, including those conditions that influence the efficiency and effectiveness of control procedures adversely.

Control activities may fail if the controls are circumvented or in case there is collusion for the purpose of committing fraud. Therefore, it is important to monitor the control procedures, i.e. their efficiency and

effectiveness, coupled with taking timely measures for the removal of the detected deficiencies and weaknesses.

Documenting rules

The executed business transactions need to be documented properly, and the documentation kept in agreement with the legal requirements.

Documentation that prove the execution of business transactions should be made available to the staff, internal and external auditors and other bodies to enable them monitoring of the course operations and transactions in all of their stages.

Control procedures should be documented. Checklists, templates, forms, etc. used to prove that controls have been carried out need to be as complete and simple to use as possible. Specific attention should be paid to the format of a template to be used for the purpose of entering data into an information system. By their layout, such templates should match the computer screens of the relevant applications and vice versa.

Ex-post controls

Ex-post controls include all the procedures that budget users need to carry out after making financial decisions, i.e. after executing certain business transactions (e.g. after paying invoices for the procured goods, disbursing donations, aid and other transfers, etc.).

The purpose of ex-post controls is to provide additional assurance that the budget funds have been spent in a legal, purposeful and earmarked manner, that the expected outputs and outcomes have been attained, and that the performance discrepancies have been adequately substantiated, documented and approved.

Moreover, these controls are the function of detecting potential errors and mistakes, discrepancies and irregularities, as well as of taking the necessary measures for addressing them (e.g. it may be subsequently detected that a purchased device hasn't been tested; Tests have been conducted, and if device failures or malfunctioning have been detected, replacement or repair of the device should be requested within the warranty period. This avoids additional device replacement or service costs).

Ex-post controls focus on:

- checking whether or not goods, works and services have been received or executed in keeping with the contracted specifications, whether they are being used and if their value matches the amounts paid;
- checking whether or not programs, projects and activities have been achieved in accordance with the agreed conditions;
- checking of the sustainability of the results after a programme, a project or an activity has been completed;
- checking whether contract amendments and addendums have been adequately documented, if there were any discrepancies in the delivery of a programme, a project and an activity;

- checking to see if the payments are grounded upon complete documentation that prove the execution of business events and transactions and if they were approved by competent persons;
- checking whether or not resources were paid out to final beneficiaries through donations, aid, subsidies and other transfers in a legal and earmarked manner.

Specifically, ex-post controls need to be conducted for paid donations, aid, subsidies and other transfers to final beneficiaries.

The most frequently used control procedures for the purpose of carrying out ex-post controls include:

- spending/project implementation reports;
- on-the-spot checks with final beneficiaries.

Budget users paying out the subsidies (to public enterprises, farmers...), aid (within general budget), donations (to non-profit organisations), capital aid (to enterprises, farmers, craftsmen) should ask the final beneficiaries to submit their **spending/project implementation reports**.

It is recommended that the spending report contains a narrative and a financial sections.

The narrative section lists and describes the activities carried out and the results achieved. These are then compared against the planned activities and results. This section may further indicate problems and difficulties that arose during the course of project implementation and the intended way of addressing them.

The financial section presents an overview of the planned revenues and expenses of the funded project/activity and the actual data on revenues and expenses. The revenue generation/expenses execution requires evidence – e.g. contracts, invoices and calculations for expenses and an itemisation of payments credited to a bank account of a project or for an activity in case of revenues.

The submission of spending/project implementation reports may be required monthly and/or quarterly, twice during the project implementation stage or at the end of the project. Options may vary, and are determined by the budget user in line with its needs.

In addition to having controls in the form of written reports being sought from the final beneficiaries of financial resources, a sound financial management and control system also requires on-the-spot checks with final beneficiaries.

The on-the-spot checks are being carried out on a sample and risk assessment basis. The on-the-spot checks with final beneficiaries imply control to see whether or not the approved funds have been used in an earmarked and legal fashion. For instance, whether the foreseen equipment was purchased, if it is used, whether a planned plant was built, does the plant match the project in terms of its dimensions and quality of the installed materials versus the ones whose building was approved for funding, are training sessions whose preparation and commencement was funded from donation/subsidy funds being delivered, whether a permanent grove funded from a subsidy has been planted, etc.

Checklists can also be used for the purpose of carrying out the on-the-spot checks. These checklists contain questions that help perform the check, while they serve as a documented evidence of the checks carried out.

Those budget users who provide donations, aid funds, subsidies and capital grants need to devise questions depending on the purpose for which funds are being provided.

A completed checklist with accompanying evidence (photographs, photocopies of relevant documents, etc.) may constitute minutes and be a proof of the on-the-spot checks performed.

If any irregularities are detected in terms of spending the resources, non-earmarked spending, etc., a recovery of the amounts may be required to be credited to the budget. Other measures foreseen in the financing contract or a subsidy decision may also be required in such instances.

Inspection as a form of ex-post controls

Some ministries and state administration bodies have put their inspection services in place. These engage in onsite inspection in keeping with the provisions contained in the State Administration System Act¹² and other special laws.

The performance of the onsite inspection exercises as per special laws implies a direct insight into the general and specific regulations, conditions and the manner of work of the legal and natural persons subject to inspection and taking the measures foreseen by law or other relevant regulations in order to align the state-of-play and operations identified with laws and regulations. Onsite inspections are being carried out by inspectors and other civil servants authorised for the performance of supervision exercises when they are provided for by special laws.

This is a typical onsite supervision and inspection. In individual cases, it may be seen as ex-post control. Such supervision, i.e. inspection services have been put in place, e.g. in the Ministry of Agriculture, Ministry of Health and the Ministry of Science, Education and Sports.

Conclusion

Control activities encompass written rules, procedures and measures that the budget users take in order to reduce risks and achieve the set operating objectives.

This section of the Manual presented some of the most significant types of control falling under the categories of ex-ante and ex-post controls, including: authorisation procedures, recording and approving the exceptions, double signature system, procedures that ensure the safeguarding of assets, procedure for securing the collection of accounts receivable, procedures in respect of creating contractual obligations, procedures for a complete, accurate, regular and up-to-date recording of business transactions, ex-post controls by way of spending reports and on-the-spot checks.

The Manual provided more detailed explanations for only some of the control procedures and measures and presented examples of their application in key areas of financial management and control, such as revenue, expense, asset and liability management. However, many additional control procedures that the budget users design in accordance with their specificities and operating particularities may be expected in practice.

While it is important to highlight the fact that control activities are founded upon written rules, legal regulations alone are not enough. This is especially pronounced with the budget cycle processes. The implementation of these processes directly or indirectly involves a large number of organisational units. Observing the relevant legal regulations as their groundwork, internal procedures in this area need to define the rules of procedures, participants, their roles and responsibilities, the control activities, prescribed templates, forms and similar issues that require further elaboration more thoroughly.

¹² "Official Gazette of Republic of Macedonia" no. 58/2000, 44/2002, 82/2008, 167/2010 and 51/2011

The Central Harmonisation Unit gathers internal regulations and procedures prepared by budget users. A database containing such internal regulations and procedures may be found at the Ministry of Finance's website at <http://www.finance.gov.mk>

Note that internal procedures contained in the database were prepared by relevant budget users in accordance with their specificities and needs. They may be of use to other budget user as an idea for the production of their own internal procedures. Again, however, this exercise needs to take account of the specificities of each budget user separately.

4.4. Information and communication

4.4.1. *The importance of information and communication in general*

Information and communication is one of the components of any financial management and control system. As is the case with any other component, this also cannot be considered separately. Rather, it needs to be looked upon in the context of how it interrelates with other components.

The importance of information and communication channels through which information are being transferred may be seen directly in the decision-making process. Quality of a decision made is conditional of the quality of information in terms of their timeliness, adequacy, accuracy and availability.

Adequate, timely, complete and accurate data are required to be able to manage revenues, expenses, assets, liabilities, to monitor the achievement of the set objectives, the results achieved, to analyse discrepancies, make decisions, conclusions, etc. When such data are connected together, they constitute information needed for the decision-making purposes.

Sound financial management and control requires the existence of management information systems. These comprise good databases, systems of records, reporting systems, clearly defined reporting lines, etc.

Sound financial management and control systems also imply management on the basis of the value for money principle. In addition to financial information (information on the status of revenues, expenses, assets and liabilities), it also requires non-financial information (the results and objectives achieved, information on risks, their impact if they materialised, expectations of our service beneficiaries, have we met those expectations, information on clients, suppliers, etc.).

In addition to information, it is also important to have a communication system in place that conveys such information (who conveys the information, to whom and how).

Communication within an institution is very important (clear definition of assignments, performance monitoring, giving instructions and guidance, communication between managers and staff, communication between affiliated departments, services and directorates, communication between first- and second-level budget users, etc.), and so is communication between different budget users.

Given the fact that the budget users function for the benefit of the citizens, it is also important to have good communication with the citizens. There are two reasons for that. Firstly, to find out what are the needs and expectations of the citizens and, secondly, to demonstrate accountability and transparency in the budget user operations. Therefore, it is important to make the public familiar with the operating objectives, results achieved and the criteria on the basis of which entitlements are being granted, etc.

Management information systems could be elaborated on from various angles. However, for the needs of this Manual the emphasis is put on the accounting system which represents the basis for a management information system. There is a highlight on the treasury system for financial management and control purposes, level of documentation of key business processes, documentation filing and communication.

4.4.2. Accounting systems

Accounting systems represent the foundation and the base of any management information system, because they provide information on costs, revenues, assets and liabilities, i.e. the categories in focus of financial management and control.

Exceptionally important for the development of financial management and control is how developed are the accounting systems in terms of how detailed information they provide, what are the reports generated from them, who are the intended recipients of the information and to what extent are accounting information being used in the decision-making process.

Accounting systems put in place with budget users are primarily the function of financial accounting.

An important characteristic of financial accounting is that it deals with processing information on past business activities, it is prescribed and primarily the function of external reporting purposes.

Financial accounting is regulated by the Budget Act and Accounting of budgets and budget users Act¹³ and their by-laws, such as the Rulebook on classification of revenues¹⁴, the Rulebook on classification of expenditure¹⁵, the Rulebook on Accounting for Budgets and Budget Users¹⁶, Rulebook on the form and content of the balance sheet and statement of revenue and expenditure budgets and budget users¹⁷ and the Rulebook on the application of international accounting standards for the public sector on cash basis¹⁸.

Financial accounting is based on the accounting systems and is a function of recording business events, running the prescribed business books (diary, main book, auxiliary book) and the compilation and preparation of prescribed financial statements (balance sheet and statement of revenue and expenditure).

The above reports are primarily a function of external reporting or notification of the Ministry of Finance and the State Audit Office.

If the accounting systems are kept only as a level that meets what is legally required (e.g. the prescribed chart-of-account, organisational classification, financial reports), there will be insufficient amount of information needed for internal financial management of an organisation.

The development of financial management and control requires the budget users to improve the efficiency and the effectiveness in their operations, and to strengthen managerial accountability for managing the available resources, liabilities, costs and results.

Among other things, managerial accountability under financial management implies manager's responsibility for the way in which resources are being planned, costs managed (controlled and reduced where there is room for that), revenues managed, as well as the responsibility for the execution of programs, achievement of objectives and decision-making.

Those managers who are required to take responsibility for the above need to have information at hand in order to be able to cope with such accountabilities. They need much more detailed information on costs, revenues, assets, liabilities, the results achieved, etc.

¹³ "Official Gazette of Republic of Macedonia" no. 61/2002, 98/2002, 81/2005, 24/2011 и 145/2015

¹⁴ "Official Gazette of Republic of Macedonia" no. 76/09

¹⁵ "Official Gazette of Republic of Macedonia" no. 76/09

¹⁶ "Official Gazette of Republic of Macedonia" no. 28/03, 62/06, 8/09

¹⁷ "Official Gazette of Republic of Macedonia" no. 79/03, 74/05, 88/09, 175/11

¹⁸ "Official Gazette of Republic of Macedonia" no. 116/05

It is, therefore, exceptionally important for the development of financial management and control to use the content and the structure of data contained in financial accounting as the groundwork for further elaboration of data, records and report systems for the needs of internal computing and reporting system.

Elaboration of data, and the records and report system represents the development of cost and management accounting.

The development of cost accounting concerns the development of such section of accounting focusing on costs. This includes a more detailed identification of cost, their classification (by type, purpose, the manner in which they respond to changes in the activity levels, standard cost definition, etc.), associating and monitoring costs by programs, projects, activities and organisational units, more detailed cost analysis, monitoring discrepancies vs. the plan, analysing cost trends causes, etc.

The development of management accounting concerns the development of such section of accounting focusing on the development of a records and report system for the needs of management, especially for better planning and controlling purposes.

Unlike the financial accounting, cost and management accounting have not been prescribed through special regulations because they are intended for an organisation's internal purposes.

As a rule, the contents of internal reports and the modes of data processing can neither be prescribed or precisely defined nor it is recommended to do so, as this would remove the option of recognising the individual activities in accounting terms and capturing their specificities, as well as of having flexibility in the generation of internal reports in line with the requirements of individual internal beneficiaries.

Internal computing and reporting systems are being designed by the budget users themselves, taking account of the specificities of their operations, activities and business processes, managers' information requirements and the state of the development of their business and accounting systems.

Internal computing and reporting systems should be aligned with the operating purposes, objectives and tasks and should be the function of good quality and complete reporting on the results achieved for the benefit of managers at various levels.

The development of cost and management accounting is directly dependent on managers' interest in seeking more detailed information on costs, revenues, assets, liabilities, results, and so on.

Such interest inevitably stems from a situation in which managers know clearly what is under their responsibility, what part of a budget or a financial plan was made available to them, what are their authorities and what are they expected to do.

Managers should be asked to report and provide answers to the following questions: *What was done? How was this done? Where can savings be made, without calling some activities or projects into question? Why are some costs so high? Can proposals be made to have several options for conducting an activity or a project?* It is very important to answer these and other similar questions because, even if there is a clear definition of authorities and accountabilities, if there is a lack of supervision exercised by managers' superiors over their work, there could also be a lack of interest for and understanding of the need for the development of cost and management accounting systems.

The development of accounting systems was greatly facilitated with adequate IT support. Since IT support requires sizable resources, a detailed analysis of actual needs should be conducted before any decision is made. What needs to be seen is what the budget user requires in terms of information, how

detailed they need to be and in what parts of its operations, and make a decision depending on the priorities and the available resources.

When accounting systems are being computerised, it is especially important to take into account the fact that the development of cost and management accounting systems entail an upgrade of the databases and reports from the financial accounting system and its linking with other operational systems (e.g. HR department, procurement unit, auxiliary records of fixed tangible assets, etc.).

The development of cost and management accounting systems is the common task shared between managers in general and the finance and budget manager. As mentioned earlier, information from cost and management accounting systems are primarily intended for managers, to make it easier for them to make decisions on programs, project, activities and processes under their remit. It also helps them take into account and manage the financial effects stemming from such decisions and helps them monitor the implementation of the decisions.

Finance and budget managers have a role to play in helping other managers develop the cost and management accounting systems. They can help them understand the purpose and benefits of these systems. They should be proactive, i.e. ask managers to provide them with more detailed analyses of costs, revenues and the grounds for making the calculation of their financial resource needs, and not only to sum up the needs expressed. They should require supplements to the financial statements, which should contain detailed explanation of what was implemented and how, and how have the set performance indicators been met.

Since financial accounting is the foundation for the development of cost and management accounting, the finance and budget manager's role is to make sure that there are well arranged records and reporting systems within the financial accounting system, up-to-date records, all necessary posting documents for business events. In line with the need for having more detailed information, finance and budget managers should work together with other managers towards the development and upgrade of the records and reports system for internal purposes.

More details on cost and management accounting may be found in the Cost and Management Accounting Guidelines at :

http://www.finance.gov.mk/files/u249/soki_za_troskovno_i_upavuvacko_smetkovodstvo_2.pdf

4.4.3. Treasury system

Information and communication have been considerably improved with those budget users who conduct their operations through the treasury.

The treasury is an important area within the financial management and control system, because the operations through the treasury as a rule entail a more efficient control and better management of revenues and expenses for the budget users.

In the the State treasury, besides budget users centrally are involved and the local self governments and City of Skopje.

Worth highlighting is the fact that the introduction of treasury represents an exceptionally important instrument for the improvement of the financial management and control system of budget users.

Further, integrating the accounting systems of the state budget users into the treasury system represents an important progress in improving the financial management and control system, due to the introduction of systematic controls and transparency in creating budget liabilities, anticipating

future spending, as well as in reaching the efficiency in the production of liquidity projections and managing the state budget financial flows.

The information on liabilities that budget users keep in their General Ledgers and financial statements do not suffice for the purpose of public finance and spending management. In addition to the data included in financial statements, creating the big picture on spending requires early stage information on the assumed commitments, because this is the point when the budget users consider whether or not the financial effects of their decisions fit into the approved budget and its projections in the two upcoming years.

With the new Guidelines on the treasury operations¹⁹ which began to be implemented from January 1, 2014, the Treasury conducted Records on multi obligations and commitments for the current year, budget users of the base budget of the Republic of Macedonia within 15 days after the every month, are obliged to submit a review of arrears as of the last day of the previous month. Budget users in their composition have second line budget users submit a summary of their responsibilities and the obligations of their second line budget users.

In this way the Treasury has full details of the obligations and maturities, which allows automatic surveillance system taking responsibilities (still under negotiation), including multi-year liabilities, as well as centralized data for the incurred liabilities.

It implies that the budget user is obliged to keep records of commitments and their maturity payments, which at any moment you know how committed are taken and how many can be taken under the current financial plan and projections for the following two years.

The goal is all assuming liabilities, not only invoices to be recorded in one place in the system of state treasury and available when making business decisions.

Operating through the treasury system results in a more efficient spending of public resources. The integration of the accounting, budget and general business processes enables the entry of information into an IT system only once, and the process participants can later use such information, process and forward them in line with their assigned authorities and tasks.

Advantages of operating through treasury may be found in better control over spending of budget resources intended for the budget users. Under the conditions in which a budget user does not operate through the treasury, the resources are just being allocated to its giro account without an actual insight into the future cash flows. This makes it difficult to control the purposes for which the budget user spends the money entrusted with it.

Operating through treasury enables a standardised accounting monitoring and reporting, so that the users may at any point in time have accurate budget execution information at the level of local and regional self-government units and the individual budget users.

The availability of up-to-date information on the unutilised portion of resources by individual line-items is of great importance here, as it creates an option for directing the available resources towards other projects that were lacking funding until then.

Operating through treasury also helps make savings, as it avoids unnecessary retention of monies in special accounts, payment of interest for the borrowed monies and transaction costs for transferring

¹⁹ "Official Gazette of Republic of Macedonia" no. 183/2013

money between various accounts of a budget user. On the basis of such savings made, financial resources may be redirected for other purposes and thereby achieve satisfaction of citizens.

In addition, the introduction of the treasury helps make improvements in the organisational structure, budget processes become better organised and more transparent.

A sound organisation of budget processes stands as an organisational prerequisite for introducing the treasury. Namely, the budget needs to be transparent and has to show all financing levels and types. Budget processes need to be developed in a way that specifically identifies tasks, responsibilities, funding principles and the dynamics of lodging funds requests and timeline for their execution. Furthermore, instruction with the defined work procedures and document flows need to be elaborated on, and staff should be trained in order to ensure sound implementation of work processes and procedures.

4.4.4. Level of system documentation

For financial management and control purposes, it is exceptionally important to ensure audit trail or a documentary trail of financial and other transactions, from their beginning to the end with a view to enabling the reconstruction of individual activities and their approvals.

All the decisions and their implementation must be adequately documented, payments must be grounded upon credible documentation, material and financial documentation properly processed (all recording elements need to be indicated, showing the links with contracts, requisition forms, requests, financial plan line-item identifier, account number of the C-o-A, programme, project code, etc.). Documentation also needs to contain all required signatures, including of those who filed the request, who authorised it, who performed control, who executed the payment, etc.

An arranged financial management and control system requires the existence of a written, i.e. documented procedure.

What is especially important is to have clear procedures dealing with the budget cycle processes, the strategic planning process, financial plan production, financial plan execution, including the contracting and procurement processes, the accounting processes in terms of processing material and financial documentation, records and reporting system.

The execution of the above processes include a large number of organisational units. Owing to internal written procedures, the process participants may be informed as to who does what, what are their authorities and responsibilities, and what control procedures they need to carry out. This enables taking course of action in compliance with the procedure, it informs the participants as to what to do, and a subsequent reconstruction of events, as necessary.

Apart from the arranging of the budget cycle processes, the key processes contributing to the achievement of budget user's strategic objectives also need to be arranged. These processes are running within the organisational units.

Competent managers should document the processes from their respective remits on the basis of risk assessment. Based on the assessment of the level of risk of their business processes, managers will define which of the processes should be arranged in greater detail. For example, these include processes which entail significant financial effects, the complex and important processes without IT support, and the like.

Key business processes may be documented in several ways:

- by written instructions, procedures, i.e. by way of internal regulations, including ordinances, instructions, guidelines, guides, etc.;
- by computerising business systems and processes;
- by producing a book/map of business processes

In the context of documenting the system, those budget users who possess a relevant ISO certificate for their entire or some sections of the operations, which implies that they have listed and described their business processes in accordance with ISO requirements, will have a sound foundation for the purpose of documenting the system.

However, we need to highlight that the development of the financial management and control system in keeping with the Public Internal Financial Control Act requires the budget users neither to introduce ISO standards nor to purchase special and frequently expensive IT solutions that make updating the changes within the system easier.

Further, the fact that a budget user has or considers introducing the ISO standards does not mean that the overall financial management and control system has been dealt with or that a budget user has a developed financial management and control system.

Unless there are clearly set operating objectives, a clear purpose and the efficiency in carrying out the business processes, what may happen is that ISO system only leads to an organised and defined FAILURE in achieving “value for money” or to “rendering poor services”.

Quality management system may only serve as a sound foundation for the financial management implementation. ***This requires:***

- *understanding that financial management leads to the achievement of the set objectives with “best value for money”;*
- *that the quality management system includes all needs of the financial management and control system.*

The transparency rate needs to be improved in all budget cycle processes, while actions taken within such processes need to be captured or provided for through adequate internal regulations.

Such internal regulations need to be regularly updated in keeping with the level of implementation and development of a process. Any change in internal regulations needs to be recorded as a version change. To ensure that all changes to internal regulations get recorded in a timely fashion, it is always necessary to identify the owner of such internal regulation, i.e. a person with authority and responsibility for:

- coordinating the process implementation across organisation;
- ensuring that all managers are familiar with the need of observing the internal regulation that provides for the course of a process, as well as the duties and authorities of individual process participants;
- promoting the culture of making changes to internal regulations;
- making sure that process participants are adequately trained;
- making sure that internal regulations production and/or updating follows the level of process implementation and development.

If during the course of performing his/her activities on the basis of internal regulations a process participant detects an option for making improvements in some sections of the process, he/she should be enabled to make relevant proposals to the internal regulation owner. This would ensure the adequacy and applicability of internal regulations.

4.4.5. Documentation archiving

The Archival material Act²⁰ regulates the protection, preservation, processing and use of archival material.

According to this law:

Archival material is overall authentic and reproduced documentation material of permanent value which is significant to the country, culture, holders, and other needs.

Documentary material as a source of archival material, constitutes the entire original and reproduced material and books and other records for the material created in the work of the holders until it is relevant to their current work, and as long as the person was not singled out archival material.

Office work is receiving, viewing and deployment of document / record, recording the document / record, submission of documents / entry into service, administrative and technical processing of the document / record, sending the document / record, divorcing and classification of the document / record and delay solutions document / record in filing office.

Document / record is recorded information created or received in the initiation, conduct or completion of the activity of a body, legal or natural person and include sufficient content, context and structure, so regardless of form or medium by It gives evidence of that activity.

Key features of the document / record is authenticity, reliability, integrity and usability:

- a) authentic document is the one who can prove that is what it claims to be, that it created or sent him for claiming that it created or sent and that is created or sent at the time the claim that is created or posted;
- b) credible is the document whose content can be believed fully and accurately reflects the activities or facts that constitute the content;
- c) complete is the one document that is full and unchanged and
- d) usable is the one document that allows to identify, locate, searched, present and interpret;

Decree on office and archive operations²¹ are regulated office and archive operations of state bodies and institutions, public institutions and services, public enterprises, companies established by the state or where the dominant capital has the country, local government and the City of Skopje, legal and individuals who are legally entrusted with public authorities, private entities and individuals are self-employed

²⁰ ("Official Gazette" no. 95/2012, 41/2014, 72/2015, 148/2015 and 169/2015)

²¹ ("Official Gazette" no. 1/2014)

The Guidelines on the method and technique of handling archival and documentary material in the office and archive operations²² prescribed manner and technique of handling archival and documentary material in the office and archive operations.

Budget users organization, processing, disposal and storage, destruction and preservation of archival material is obliged to perform under this Regulation.

All records and documents of budget users, as well as technical and business documentation kept in accordance with the Guidelines on the method and technique of handling archival and documentary material in the office and archive operations.

Among other things, according to this guideline are stored and archived business books, records, analyzes, calculations, invoices, reports, accounting cards, contracts, accounting records of the material.

Despite this accounting - financial documents are stored and archived, and all other acts, such as status documents (eg. Statutes, registration decisions to the budget user, etc.), Legal and general documents (eg. Agreements and agreements on business cooperation, litigation, minutes and decisions of the inspection bodies, documents relating to the protection of work, correspondence of internal character, notices, etc.), personnel documentation (record books of employees, records of employees with the relevant attachments, records of employment contracts, applications for tenders notices to applicants of the results of the election, et seq.), and technical documentation for investment (investment reports with the design, documentation for tendering for awarding work documentation for investment maintenance decisions investments etc.).

With the foregoing, it is important to emphasize that budget users are obliged to work under the provisions of the Degree on office and archive operations. According to this decree every budget user is obliged to take care of reception, viewing and distribution of documents / entry, filing, document / record, submission of documents / entry into service, administrative and technical processing of the document / record, sending the document / record , divorcing and classification of the document / record and disposal solutions document / record in filing office.

Also, each budget user shall organize filing office for performance: reception, document viewing / recording, seduction and association documents / records, submitting the job, sending the document / record, the dissolution of the document / record and its archive of filing office in the archive.

4.4.6. Communication

Communication within an institution, which includes communication between managers and staff, communication between various organisational units, with a special emphasis on communication between the finance unit and all other organisational units, as well as communication with budget users within the system and the external communication between budget users and with the citizens who are the public sector service beneficiaries constitute an important element in the financial management and control system.

Communication between managers and employees

The importance of communication between managers and employees in the context of financial management and control stems from the fact that such communication helps management to convey

²² ("Official Gazette" no.99/2014)

information on objectives, assignment, instruction, etc. to the staff. This tells the staff what does management expect from them. On the other hand, such communication provides feedback from staff to management on their needs, the prerequisites to be met for the achievement of objectives and completion of tasks, the detected risks and weaknesses in the system.

Quality of such communication in terms of its two-way character (managers ↔ staff), as well as in terms of setting the objectives and staff expectations clearly, active involvement of staff and their constructive proposals, will result in that the staff will have a clearer picture as to what they are expected to do and how they can contribute. On the other hand, managers will be better informed of the operational execution of assignments, potential difficulties and the measures to be taken.

Communication between organisational units

A well developed communication between organisational units contributes to a better exchange of information within the budget user, a timely information on the detected difficulties, better communication in working towards the set objectives and the core operating functions, detecting overlapping work or assignment or the insufficient coverage of some areas of operations.

Communication between the finance unit and other units

The development of financial management and control also requires the development of communication between the finance unit and other units. The essence of the development of this system has to do with the development of managerial accountability of budget user heads and the heads of internal organisational units for the financial effects of the operations. In other words, the budget user head and managers of internal organisational units are the ones to cater for the financial effects of the operations, because this falls under their and not finance unit manager's responsibility.

What frequently happens in practice is that budget and finance unit heads cater for the financials overall, while other managers do not perceive this as their primary responsibility. The development of financial management and control moves towards changing this practice. It is, therefore, important to keep developing communication between all organisational units and the finance unit as a supporter of such a change. The finance units are expected to develop their advisory role and support to managers in assuming their managerial accountability, while other organisational units are expected to take account of such advice and support, as well as to get actively involved in the production of instructions, rules and procedures that provide for the budget cycle processes. While it is true that the finance unit is most frequently the one to initiate the production of such rules, active involvement of all participants in such processes is required in order to take the specificities of the given part of operations into account.

Communication with budget users within the system

Those budget users who have subordinate (second- and third-level) budget users within their systems need to establish and develop efficient communication with them. This especially refers to information on operating objective and involvement of their subordinate budget users in the production of planning documents. Such involvement does not only include partaking in the production of the financial plan, it rather implies the preparation of strategic development documents, operational planning documents, etc. Further, heads of the second- and third-level budget users should take part in senior staff meetings (of ministers, county prefects, mayors, municipality heads), and cooperation and coordination between the competent directorates/administrative departments of subordinate budget users should keep developing. Such budget users are also expected to point to certain operating risks and to alert the

competent budget of operating difficulties on time. Communication with the budget users within the system is important due to the need for having a coordinated approach to financial management and control.

Communication between budget users

There are numerous areas in the public sector that fall under the scopes of competence of multiple budget users, this, for instance, refers to health (including the competent ministry, the Health Insurance fund, municipalities and City of Skopje, health institutions); social policy (including the competent minister, social protection centers, social institutions, municipalities and City of Skopje), and additionally, some activities frequently require interdepartmental cooperation, such as fire fighting (cooperation between the army and the police).

Communication between budget users affiliated through some public sector functions is extremely important to make the performance of an activity in its entirety a success.

Among other things, the development of financial management and control includes the development of communication channels between budget users with a view to reaching better availability of needed information, reducing cost of data processing, achieving better networking and thereby quicker and more efficient services for the citizens, better information bases for decision-making purposes and many other advantages.

For instance, supervision and control of social benefit entitlements would be far quicker and more efficient in a system that networks together the social benefit claimant's means tested data from the Tax Administration, data from the pension system concerning claimant's pension benefits, and similar databases.

Communication with service beneficiaries, citizens and the public

In their mission and vision statements, budget users frequently highlight that they focus on beneficiaries of their services and meeting their needs. This is completely understandable, because the budget users are the function of service delivery to citizens and this is their primary role. Therefore, communication with the citizens, i.e. public relations constitute an important part of the financial management and control system.

The importance of communication with citizens may be considered from two angles.

Firstly, as beneficiaries, the citizens demand the delivery of good quality and complete public services. They are especially appreciative of simple ways of doing things, i.e. when they receive the right and specific service. It is, therefore, important that the budget users are familiar with the needs, interests and desires of their service beneficiaries. When they have a larger pool of information about their service beneficiaries, budget users may adapt themselves better to and recognise and predict their needs. One should know what are the needs of the beneficiaries, whereas the decision on what services will the budget user ultimately offer needs to be made on the basis of information on the available resources (financial, human, IT support, etc.). Those budget users who cooperate with their service beneficiaries actively involve them in discussions about, e.g. the important projects, analysis of client satisfaction with services rendered, they give them opportunities to present their recommendations on how to improve and enhance a service, and how they can render better quality and more adequate services focusing on what the beneficiaries expect from the budget users.

On the other hand, the citizens as taxpayers wish to see that their resources are being spent prudently and that public sector managers act as good stewards in managing the budget resources efficiently.

The citizens want that the operating objectives and performance results be publicly known. For this reason, it is important to publish the objectives, financial plans, budget execution reports, performance indicators achieved, etc. Those information are important to citizens both to make them familiar with the objectives, the results and the transparency in a budget user's operations and also to react in case they detect any weaknesses.

Conclusion

Adequate, timely, complete and accurate data are required in order to manage revenues, expenses, assets, liabilities, to monitor the achievement of the set objectives, results, discrepancies, and to be able to make decisions, conclusions, etc. When combined together, these data constitute information needed for decision-making purposes.

One of the important milestones in the development of the financial management and control system, especially in terms of information and communication, is the level of the accounting systems development. This primarily refers to how detailed are information streaming from the accounting systems, what reports are being generated, who are the intended recipients of such information, and to what extent are the accounting information used in the decision-making process.

The development of financial management and control requires the development of accounting systems. This especially refers to cost and management accounting systems that enable more detailed information on costs, revenues, assets and liabilities and the link with the non-financial information, e.g. those on the achieved outputs and outcomes, etc.

Those budget users who organised their operations through treasuries have substantially improved their financial management and control. This is primarily because operating through the treasury system as a rule implies more efficient control and rational management of revenues and expenses. Therefore, the introduction of the treasury in local level budget users and further integration of the accounting systems of the state budget users into the State Treasury system represents an important instrument for improving the financial management and control system.

A well arranged financial management and control system requires the existence of written or documented procedures for key business processes. Such level of documentation may be attained in several ways, e.g. through written internal instructions and procedures, computerisation of business processes and the production of a book (map) of business processes. Budget users should choose the way they see most fitting for them.

However, it is recommended that internal procedures be developed for the budget cycle processes and certified by the budget user head. As mentioned earlier, the reason for this is that these processes see a direct or indirect involvement of virtually all organisational units.

4.5. Financial management and control system monitoring and assessment

The financial management and control system requires ongoing monitoring to enable evaluation of how well it functions, making timely updates in case of changed circumstances and modes of operations, as well as to identify measures aimed at a continuous development of the system.

Assessment and monitoring of the financial management and control system is being performed by:

- **ongoing monitoring;**
- **self-assessment;**
- **internal auditing.**

a) Ongoing monitoring activities

Ongoing monitoring involves regular management and oversight, as well as other activities that the staff carry out while they are performing their duties. It also involves measures taken for addressing the detected weaknesses and difficulties at the level of individual activities, procedures or processes.

Every person in an organisation has some responsibility in terms of monitoring. A job position of any person helps identify the focus and the extent of such responsibilities.

Therefore, employees, middle management and high level management perform monitoring at their respective levels and depending on the responsibility assigned to them.

The staff – The staff needs to focus on monitoring their own work in order to perform their job adequately. The staff is in position of remedying errors and mistakes before the activities they perform get referred to higher levels for consideration. Management needs to train the staff in control activities and encourage them to be cautious and to report on any weakness and irregularities detected. Given that they are involved in details of the day-to-day operations of their organisation, the staff are best positioned to detect possible problems in the existing control activities. Furthermore, they need to pay attention to changes taking place in their immediate internal and external environments, identify all risks and report on opportunities for improvement.

Managers of services/departments – Middle management needs to consider the functioning of controls in the context of an organisational unit under their remit (service or department), and how well do persons in charge of individual areas of operations supervise performance. While the focus of these managers needs to be the same as of the persons supervising performance, it has to be additionally broadened to encompass all organisational units under their responsibility.

High level management (assistant ministers, heads of administrative bodies, sector heads) – Due to their broader scope, executive managers need to put a greater emphasis on the achievement of organisational objectives. Moreover, the executives need to monitor the existence of risks and opportunities in their internal and external environments, which may encourage the need for making changes to organisational plans. Management needs to make sure that adequate measures are taken depending on what the monitoring results were. For instance, managers can make a decision on setting new general and specific objectives in order to exploit new opportunities; it can consult the staff or train them additionally in remedying procedural errors and mistakes; or it can adapt control activities in order to minimise changes of risks.

b) Self-assessment procedure

Unlike ongoing monitoring, self-assessment is mainly being carried out annually. It is a more comprehensive approach to assessing the financial management and control system as a whole, i.e. its key areas.

In order to establish the current state-of-play of financial management and control, any budget user needs to perform self-assessment (or review) of their institution's financial management and control system periodically (at least annually).

Through self-assessment, a budget user needs to establish whether or not it has an adequate financial management and control system with rules and procedures that ensure that the operations are being conducted regularly, ethically, economically, efficiently and effectively.

Self-assessment of the financial management and control is done by filling out a questionnaire on the Annual Report of financial management and control.

The structure and content of the questionnaire for the annual report on the financial management and control, and the method of preparation is regulated by the Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the annual financial report²³.

In the questionnaire for the annual report on the financial management and control issues are grouped according to the components of financial management and control: control environment, risk management, controls, information and communications and monitoring system.

The questionnaire for the Annual Report for the financial management and control are required to fill in all budget users and thus to conduct a self-assessment of financial management and control of its key areas, namely in the planning and execution of the budget / financial plan, public procurement, accounting and notification.

In the questionnaire for the annual report on the financial management and control of the most prevalent issues related to the control environment, which is a prerequisite for the full development of the system of financial management and control. In the control environment, among other things, monitor the area of ethics and integrity, arranging the situation of conflict of interest, method and management approach, the way within the organizational structure regulates the powers and responsibilities of development planning approach to work and human resources management.

Also, through the questionnaire on the Annual Report for the financial management and control and analyze the development of the process of risk management, which is a relatively new process in public sector institutions, which should be developed as an integral part of the management process, especially planning and decision making. In fact it is considered as the drafting of strategic and annual plans, taking into account events that may adversely affect the achievement of the set objectives, whether documented data on the risks and to what extent established reporting system for risks, is it appointed a person responsible for coordinating the establishment of a process of risk management, and whether

²³ ("Official Gazette" no.147/10, 34/11 и 113/14)

appointed coordinators of the risks and whether budget users to report second-line budget users in the first line of the most significant risks.

The questionnaire for the annual report on financial management and control contains a significant number of issues relating to control activities. But what in the questionnaire on the Annual Report of financial management and control is required is a broader consideration of how they control activities are arranged, for example, require more detailed information on the content and structure of certain written procedures governing process records of business events, the process of strategic planning, the process of bargaining and procurement, and so on.

In the area of information and communications in the questionnaire on the Annual Report of financial management and control, also goes a step further by reporting based on prescribed legal framework, ie greater emphasis on the regulation of the internal reporting system for financial management .

Thus, this section examines the manner of reporting and analyzing the performance of the financial plan, the development of accounting systems, the practice of developing additional internal reports for financial management, computerization of operating systems and documentation of key business processes and the development of system information and communications between the first and second line budget users.

The questionnaire for the Annual Report for the financial management and control includes issues relating to the manner of monitoring and evaluation system of financial management and control through which to consider the method of implementation of the reporting system at the highest level of management in order to obtain information on functioning of the financial management and control system; way to ensure that procedures, internal regulations are implemented in practice and is updated to the needs, monitoring the implementation of recommendations of the external and internal auditors and establishing a reporting system that provides monitoring the functioning of the financial management and control second line budget users.

The further development of financial management and control will go towards finding a uniform approach in the way of self-assessment, but now, at a time when the system is developed and when at the same time necessary to provide the minimum requirements, these models have proven to be a necessity.

After completing the self-assessment to determine weaknesses and shortcomings need to plan actions to address them.

More on planning activities for the development of financial management and control is contained in Chapter 5 of this Manual.

The results of the self-assessment system of financial management and control, as well as activities that are planned to be taken to address the identified weaknesses and measures for further improvement, budget users are obliged to inform the relevant budgets, namely the Ministry of Finance.

More notifications system of financial management and control is contained in Chapter 6 of this Manual.

c) Internal audit activities

Internal audit of those budget users who are obliged to establish it is the function of making an objective and independent evaluation of the financial management and control system.

Although internal audit is an organisational unit of a budget user, it is functionally and organisationally set apart from other organisational units and reports directly to the budget user head. Such a functional and organisational separation is important in order to ensure internal audit's independence and objectivity in planning its activities, i.e. in defining the areas to be audited on the basis of a risk assessment, auditing business systems and processes and reporting, which especially goes for direct reporting to the budget user head.

Importantly, internal audit independence does not mean its isolation.

It is recommended that the internal audit unit heads take part in meetings organised by budget user heads, i.e. in senior staff meetings with ministers, county prefects and majors, so that they could gain knowledge conveyed by top management structure as to the institution's direction, the operating priorities, areas where difficulties arise, etc. These are all important information for internal auditors that allow them to identify the areas to be audited and which requires audit resources to be directed in order to strengthen the systems of internal controls. Further, the senior staff meetings of ministers, and mayors need to be the venue for discussing audit recommendations, whether or not they have been implemented and the actions taken to address the recommendations made.

What is important is that internal audit's reports are a vehicle to supply the head of a budget user with additional, independent information on how the systems of internal controls operate in the audited areas, how well managers with delegated authorities and responsibilities perform in achieving the objectives and results, how they manage budget resources placed under their competence, and what are the recommendations to improve the operations.

Internal audit can help managers to identify certain weaknesses and irregularities that may have not have been identified during the course of performing the everyday activities. It also helps them take timely measures to address such weaknesses.

There are some frequently asked questions in practice, such as: How can internal audit make recommendations for the improvement of some systems and processes if they do not implement and take part in them? Shouldn't the responsible staff and managers be the ones who are the most familiar with those systems and processes since they carry them out on a daily basis?

Internal audit presents an "independent view of business systems and processes from a different angle", which is founded upon a clearly defined audit methodology, on the basis of which internal audit may review systems and processes, identify weaknesses and make recommendations. Internal audit approaches any business system and process by considering and analysing them from three angles, including, the objectives of a business system/process; the risks that jeopardise the achievement of such objectives and the expected controls; and ascertaining, analysing and testing the existing controls.

Audit findings that internal audit arrives at must be founded upon evidence, whereas the recommendations they make must be realistic and feasible.

An especially important step in the process of carrying out an internal audit assignment refers to agreeing on the draft audit report with the audited. The aim is to establish whether or not all required documentation and information supportive of audit findings have been taken into account, and whether or not the audit recommendations are realistic and feasible.

The recommendations made need to be implemented in accordance with the relevant Action Plans. The recommendations left unimplemented point to the residual weaknesses in the systems, and that risks of operating shortcomings still pose a threat.

Implementation of audit recommendations is managers' responsibility.

Among other things, the opinion of internal auditors takes into account the status of implementation of recommendations made.

If left unimplemented, they need to be included in the Weaknesses and Irregularities Removal Plan, i.e. in the Financial Management and Control Establishment and Development Plan. The following sections will present more information on this subject.

d) External audit – State Audit Office

In addition to the aforementioned forms of internal monitoring and assessment of the financial management and control system, the reports of the **State Audit Office** represent an important source of information for the budget users in respect of the functioning of their financial management and control systems. State auditors produce these reports when auditing the operations of budget users.

Findings and recommendations of the State Audit Office that point to budget user operating weaknesses (e.g. unrecorded accounts receivable, poorly shaped records, etc.) suggest to a budget user that there are weaknesses in the financial management and control system in those areas.

Hence, in addition to the assessment of the efficiency and effectiveness of the financial management and control system performed by the budget users themselves, external audit performed by the State Audit Office in accordance with international standards and best practices ensures additional information and assurance concerning the way in which public funds are being managed and spent and point to weaknesses that need to be addressed.

Conclusion

Financial management and control systems require ongoing monitoring and assessment of their adequacy, efficiency and effectiveness.

Monitoring and assessment is being conducted by way of ongoing monitoring, self-assessment and internal audit.

Importantly, the Fiscal Responsibility Statements and the self-assessment of the financial management and control system during the course of drafting an Annual Financial Management and Control System Report represent self-assessment mechanisms, and their primary intention is to help the budget users scrutinise and analyse their own financial management and control systems, identify weaknesses and take measures for their removal on time.

5. PLANNING THE FINANCIAL MANAGEMENT AND CONTROL DEVELOPMENT ACTIVITIES

The previous chapter tackled the need for an ongoing monitoring and assessment of the financial management and control system performed by way ongoing monitoring and self-assessment and evaluations made by internal and external audit.

All previously mentioned types of monitoring and assessment of the financial management and control system that lead to identifying the weaknesses and shortcomings and, resultantly, to identifying measures and activities to remedy them, are the starting point for planning the activities aimed at the financial management and control establishment and development.

What needs to be highlighted is that planning the activities aimed at the financial management and control development represent a continuous and cyclical process that may be considered through the following steps:

- 1. assessment of the financial management and control system through various forms of monitoring, self-assessment and internal audit, taking into account the external audit findings and recommendations;**
- 2. identifying the activities aimed at remedying the weaknesses and shortcomings detected during the system assessment stage;**
- 3. identifying the measures for further improvement and enhancement of the financial management and control system, which do not necessarily mean that there are system weaknesses;**
- 4. carrying out activities aimed at addressing the weaknesses and measures for improving the financial management and control system;**
- 5. re-assessment of the financial management and control system and redoing all of the steps above.**

The financial management and control development activities planning cycle is shown in the figure below.

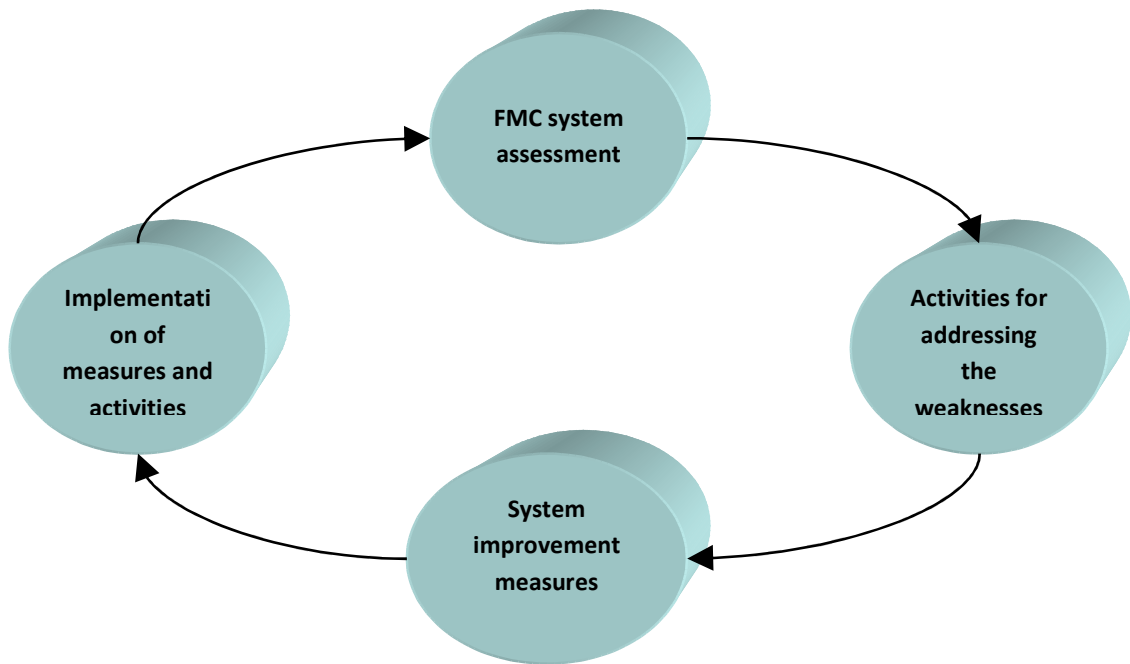


Figure 12 - Presentation of a cyclical planning of the financial management and control system development activities

Given the complexity of the financial management and control system, as well as the fact that it would be impossible to adopt completely identical approaches to assessing the components of financial management and control for all budget users, there are certain differences in terms of assessing the system.

This difference in evaluation of financial management and control reflect the approach in the planning of activities for establishment and development of financial management and control, ie preparation of plans for the establishment and development of financial management and control

5.1. Plan for the establishment and development of financial management and control

According to Article 11 of the Law on Public Internal Financial Control Head of Financial Affairs Unit coordinates the process of developing, establishing, implementing and maintaining financial management and control is to prepare plan for the establishment of financial management and control, and methodology implementation of the plan being approved by the head of the subject.

The plan for the establishment and development of financial management and control contains a summary of activities that are planned to be taken in order to resolve:

- a) identified shortcomings in the preparation of the annual report on the activities of the establishment and development of financial management and control
- b) the findings and recommendations of the internal audit
- c) the findings and recommendations of the State Audit Office
- d) other measures designed to further develop the financial management and control.

a) Activities planned to be taken with a view to addressing weaknesses detected during the production of the Annual Public Financial Management and Control Reports

Those budget users who are obliged to produce their Financial Management and Control Establishment and Development Plans are at the same time obliged to carry out a more exhaustive self-assessment of their financial management and control systems on the basis of the Questionnaire for the Annual Financial Management and Control System Report (GI-FUIK template). By answering the questions from the questionnaire, budget users assess the level of development of individual components of controls (control environment, risk management, control activities, information and communication, monitoring and assessment). Any negative or partial answer most frequently point to certain weaknesses and deficiencies, i.e. the areas in need of further improvements.

Measures planned for the removal of the detected weaknesses and deficiencies, i.e. the measures aiming at further development of financial management and control by its components, need to be incorporated into the Financial Management and Control Establishment and Development Plan, by assigning persons responsible and implementation deadlines to the measures.

b) Activities planned to be taken with a view to addressing internal audit findings and recommendations

Those budget users who are obliged to produce their Financial Management and Control Establishment and Development Plans are also obliged to put internal audit in place. While planning their activities aimed at developing the system, they need to take account of internal audit recommendations focusing on the improvement of the system of internal controls.

We wish to remind here that internal audit recommendations should be implemented in keeping with the deadlines defined in the Action Plan (Recommendations Implementation Plan), which is produced after the completion of each internal audit assignment.

For the purpose of producing the Financial Management and Control Establishment and Development Plan, in the plan's section that spells out the activities planned to be taken with a view to addressing internal audit recommendations, account should be taken of those internal audit recommendations that were not or were only partially implemented but are planned for implementation during the course of the effective year of the Financial Management and Control Establishment and Development Plan.

Data on such recommendations (unimplemented and/or partially implemented) are spelled out in the form Internal Audit Opinion on the Financial Management and Control System for the areas audited a year earlier. This form is annexed to the Fiscal Responsibility Statement.

c) Activities planned to be taken with a view to addressing weaknesses detected during the production of the Fiscal Responsibility Statement

In their Financial Management and Control Establishment and Development Plans, budget users will spell out the activities they have previously indicated in their Weaknesses and Irregularities Removal Plans (with the same deadlines and responsible persons stated in the Weaknesses and Irregularities Removal Plan), with that this requires additional linkage between such activities and the financial management and control components.

d) Activities planned to be taken with a view to addressing the State Audit Office findings and recommendations

Any findings and recommendations made by the State Audit Office towards the improvement of the existing system of internal control should also be taken into consideration in the production of the Financial Management and Control Establishment and Development Plan.

Budget users will indicate the activities intended for addressing the State Audit Office findings and recommendations from their audits previously carried out.

e) Other measures planned to be taken towards further financial management and control development

When producing their Financial Management and Control Establishment and Development Plans, budget users should also take into consideration all other measures that do not arise from the previously described analyses but whose implementation results in making improvements to financial management and control.

For example, those local and regional self-government units who intend to put a treasury system in place or expand it to cover all of their budget users, budget users who are introducing a new or upgrading the existing IT system, etc., will indicate such measures under this item of the Financial Management and Control Establishment and Development Plan.

Aside from the said measures, this section of the Financial Management and Control Establishment and Development Plan may also be used to indicate those activities that focus on addressing some weaknesses or shortcomings identified during the performance of supervision activities, if any. These may be the ones pointed by the Budget Supervision Unit, onsite inspection exercise, supervision exercised by local and regional self-government units focusing on addressing findings and recommendations made by the Agency for the Audit of European Union Programs Implementation System (ARPA), a point relevant for the institutions involved in the EU programme management and implementation system, then the activities focusing on addressing the most significant operating risks identified on the basis of risk reports, etc.

All the activities itemised in the Financial Management and Control Establishment and Development Plan need to be linked to the financial management and control components. The purpose of such linking is to make it easier for budget users to recognise and link the financial management and control components through their everyday activities and the way they do business.

It is important that the budget users approach the production of their Financial Management and Control Establishment and Development Plans by considering, analysing and taking into account the results of the financial management and control system self-assessment exercise, the reports that result from the work of internal and external audit, i.e. the State Audit Office reports.

Furthermore, in the process of drafting the Financial Management and Control Establishment and Development Plan one must take account of the measures stemming from the developmental activities, which are not necessarily oriented towards the weaknesses established until then but rather to further improvement of the financial management and control system.

Such an approach to the production of the Plan aims at encouraging budget users to take an integral view of the state-of-play in their financial management and control systems at attributing a broader meaning to the entire financial management and control system than what the perception perhaps was in some earlier times.

The practice to date has shown that some budget users' activities aimed at the financial management and control establishment and development were understood more as something done to meet the obligations of the appointed financial management and control head before the Ministry of Finance and the State Audit Office rather than as an actual need for making an analysis of their own financial management and control systems and defining the activities and measures required with a view to developing the system and improving the operations.

Resultantly, it was noticed that key weaknesses in the system, such as those relating to the way in which revenues, expenses, assets, liabilities, etc. are being managed and which the State Audit Office has been pointing to in its reports, have not been understood as something that at the same time represents weaknesses of the financial management and control system. Moreover, some development measures

undertaken, e.g. the introduction of local treasuries, were not recognised as measures of importance for the development of the financial management and control system.

The financial management and control head designs the Financial Management and Control Establishment and Development Plan in conjunction with the heads of internal organisational unit. The budget user head approves the Plan.

Importantly, the preparation of the Financial Management and Control Establishment and Development Plan requires involvement of other managers as well, to avoid this exercise to be understood as a sole task for the financial management and control head to handle.

The involvement of managers in the preparation of the Plan is important in order to achieve its comprehensive coverage of the activities to be taken, as well as to make managers understand their role in its implementation and the responsibility they have for the functioning of financial management and control in the areas under their respective remits.

Conclusion

All budget users are obliged to prepare a plan for the establishment of financial management and control.

6. FINANCIAL MANAGEMENT AND CONTROL REPORTING

Ministry of Finance - Central Harmonization Unit on the basis of the annual financial reports, by the end of July, current year for the previous year, prepare an annual report on the functioning of the public internal financial control which is submitted to the Government of the Republic of Macedonia for adoption together with the proposed conclusions.

Budget users first line, funds and municipalities and the City of Skopje to the Central Unit for Harmonisation submit annual financial report that is supported by a statement of the quality and condition of internal controls signed by the head of the institution pursuant to which the credibility of the data contained in the report.

Within the Annual Financial Report, submitted data for planning and budget execution or report the planned and spent funds and report for implemented programs and projects.

In addition to submit a report on conducted self-evaluations, outlining weaknesses and irregularities in the system of financial management and control, recommendations to overcome them and comments by management on them. The goal of self-evaluations conducted at determining high risks in financial management and control measures to reduce or eliminate the risks, a person responsible for the implementation of any particular measure and deadline for implementation.

Annual Financial Report also includes the report on the activities of the establishment and development of financial management and control and report on audits and internal audit activities, the institutions are drawn up on the basis of questionnaires for self assessment of financial management and control and internal audit, which are integral parts of the Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the annual financial report.

Through the report on the activities of the establishment and development of financial management and control, budget users with drafting inform the Central Harmonisation Unit on the functioning of the financial management and control, through the components of the system of financial management and control.

Under the control environment component, they report on:

- ethics and integrity;
- way of management (how regular top management meetings are being held, involvement of the second-level budget user heads in the top management meetings of their competent budgets, etc.);
- the level of development of a planned approach to the operations (definition of strategic objectives, programme objectives, the objectives contained in the organisational units' annual plans, linkages between these objectives, and so on);
- delegation of authorities and responsibilities for the objectives/programs/activities and budget resources;
- alignment between the reporting lines (on programme/project implementation and the associated budget resources);
- cooperation with the budget users within their structure.

Under the risk management component, they report on:

- appointment of persons responsible for risk management coordination;
- identification of risks versus the objectives;
- assessment of risk likelihood and impact;
- documenting risk data (risk registers);
- risk reporting;
- how informed of risks are the budget users within their structures.

Under the control activities component, they report on:

- the existence of internal rules (ordinances, instructions, guidelines) from the areas which more thoroughly provide for the budget cycle processes, including: strategic planning, financial plan production and execution, business event and transaction records, procurement and contracting, asset management, own revenue collection, recovery of unduly spent or wrongly paid budget amounts;
- manner in which segregation of duties principle provided for in the Budget Act is applied;
- carrying out ex-post controls of the budget resources spent (granted subsidies, aid funds, etc.);
- information on how arranged are the control activities within the budget users in their structure.

Under the information and communication component, they report on:

- reporting on the achievement of objectives, programs, projects;
- manners for financial plan monitoring and analysing;
- the level of development of the accounting systems (monitoring cost/revenue by programs, projects, activities, organisational units);
- the existence of the contracted commitments records;
- internal reports for the financial reporting purposes;
- computerisation of the system and integration of IT system;
- how documented are the business processes;
- IT connectivity with the budget users in their structure.

Under the monitoring and assessment component, they report on:

- monitoring the functioning of the financial management and control system and reporting on it;
- way that makes sure that internal regulations (ordinances, instructions, guidelines) are being implemented in practice and updated;
- implementation of external and internal audit recommendations;
- the existence of reporting system by the first-level budget users which ensure monitoring of the functioning of the financial management and control systems for budget users in their structures.

Conclusion

At this stage of the financial management and control system development, the Questionnaire for Fiscal Responsibility is a vehicles that budget users use to report on the level of the development of financial management and control they achieved in the areas of budget/financial plan planning and execution, public procurement, accounting and reporting, with an emphasis on the observance of laws and regulations.

While the current reporting mode seems as additional work for budget users or they are unclear as to its purposes, this is also a facility for a timely detection of weaknesses and shortcomings within the financial management and control system which aims at its further development. Both questionnaires envisage a plan for the elimination of the weaknesses detected, which is the groundwork for the production of the Financial Management and Control Establishment and Development Plan in keeping with the new Ordinance.

Further development of the financial management and control system will be moving towards finding a uniform approach to reporting (one reporting format). However, in the stage in which the system is still developing and during which minimum requirements need to be ensured at the same time, these models proved to be a necessity.

7. BUDGET SUPERVISION

All the preceding chapters of this Manual dealt with the financial management and control system, whose establishment and functioning falls under the responsibility of the budget user heads.

The financial management and control with all of its elements presented in the previous chapter is a "tool" in hands of a budget ser management.

Together with other managers in an organisation, the budget user head should employ and keep developing the financial management and control system to be able to manage the organisation he/she is heading successfully. It also enables that operations are being conducted in line with the laws, rules and regulations, it ensures that funds are being collected and spent in an earmarked way, economically, efficiently and effectively, i.e. to minimise the risks of operating failures and irregularities.

The mechanisms for monitoring and assessing the financial management and control system described in chapter 4.5, such as the Fiscal Responsibility Statement, the annual assessment of the financial management and control system and internal audit, also represent instruments for a budget user head to detect weaknesses and shortcomings in the financial management and control system on time and to take measures for remedying them.

However, some irregularities, failures and control overrides can happen even in the best of financial management and control systems. These influence the legal and regular budget spending, i.e. complete and timely budget revenue collection. These irregularities may come in the form of a misdemeanour or they may involve suspicion of criminal activity. In such cases, the Budget Supervision Inspectors of the Ministry of Finance are authorise to take actions under their scope of competence.

Financial inspection is ex post activity for controlling the regularity of transactions and other activities in the area of financial management and control performed in entities in which the inspection is carried out²⁴.

The purpose of the financial inspection is to protect the financial interests of the public sector entities of seriously bad financial management²⁵, fraud and corruption through the establishment of violations of laws, determination of the persons responsible for the occurrence of detected irregularities and submitting requests for misdemeanor or criminal proceedings and property obligations for offenders, when the legal prerequisites.

Financial inspection is conducted on submitted request, information, notification or request from any natural or legal person supported by evidence. It can also be conducted on the basis of a report submitted to the internal or external (state) audit, and at the request of the Government of the Republic of Macedonia, the Public Prosecutor of the Republic of Macedonia and the European Anti-Fraud (OLAF - Office Europeen de Lutte Anti-Fraude).

With the development and strengthening of financial management and control creates conditions for preventive action, ie minimizing the risks of mismanagement, irregularities, omissions and the like.

²⁴ Article 5, paragraph 1 of the Law on financial inspection in the public sector ("Official Gazette of Republic of Macedonia " no. 82/2013, 43/2014 and 153/2015).

²⁵ "Seriously bad financial management" are actions or omissions made by managerial or other individual person in the entity could lead or have led to the loss and/or damage

Developed and efficient financial management and control reduces the need for intervention by the financial inspection.

But it is important to emphasize that the financial management and control is not a substitute for financial inspection any financial inspection can replace systems of financial management and control.

Conclusion

It is important to make a distinction between the financial management and control systems, which represent internal management instruments, and budget supervision as a form of ex-post external supervision exercised by the Ministry of Finance and conducted when irregularities get reported, if there is suspicion of fraud, or at request of the Minister of Finance.

The correlation between the level of the financial management and control system development and the need for budget supervision interventions is inversely proportional. One should be inclined to reaching a greater level of the financial management and control system development, as this creates prerequisites for reducing the options for failures and irregularities to happen while spending budget resources, which in turn reduces the need for budget supervision interventions.

8.ANNEXES

1. Economy, efficiency and effectiveness in delivering public services
2. Example of a description of the work / tasks of the financial affairs units in the area of coordination of financial management and control
3. Balanced Scorecard - a method for measuring success
4. Relationship between the objectives, programs and budget for example the ministry, municipality
5. Connecting the strategic plan and budget

ECONOMY, EFFICIENCY AND EFFECTIVENESS IN DELIVERING PUBLIC SERVICES

One of the aims of financial management and control is doing things not just right and ethical manner in accordance with laws and regulations, but also **economical, effective and efficient manner**.

The purpose of this Annex is to clarify the concepts of **economy, efficiency and effectiveness and give practical examples of their application in the public sector**.

Economy is geared to maximum reduce the cost of resources used in an action for achieving the goals, taking account of their respective quality.

Economical operation means not profligate and balanced operations.

Budget user who works economically procure resources necessary for carrying out activities at the lowest cost, at the same time without disturbing the requirements for quality, quantity and timeliness.

Meaning the economy is not to procure what we do not need, just what really we need and what they will use it.

An example of cost : Purchase of school and hospital supplies at an affordable price.

Efficiency is focused on the relationship between the achieved results (outputs) and resources (inputs) used to achieve them.

Efficiency is not just to reduce costs, it involves measuring how well the organization uses its resources and converts them into results.

Efficient operation means with a minimum expenditure of resources to achieve a certain amount and quality of products / services or maximum quality and quantity of products / services to get using the determined quality and quantity of resources.

Budget user work effectively when achieves maximum results by using resources which are available or when the required quantity and quality services / products is achieved using a minimum input resources.

Simply put, the budget user is more effective when delivered more services or when gives better results with the same resources or when a certain level of service can be achieved by using minimal resources.

Examples of efficiency :

Example 1: In the case of hospitals, if the quality of care and patient care stay the same despite the reduction in the budget of the hospital, then the hospital is more efficient. On the other hand, if using the same level of resources hospital waiting lists of patients are decreased, then the hospital is also more effective.

Example 2: Efficiency is improved if the individual cost of hospital treatment is decreased in time or a larger number of hospital beds is available without additional resources.

Example 3: Reducing the cost of servicing and maintenance, for example, vehicles, computers, equipment, copiers is a parameter for measuring performance.

On the other hand, the fleet in which left many official vehicles that are not used or are spoiled due to improper maintenance, are an example of inefficiency.

Effectiveness is geared to achieving targets in advance of certain general or specific targets (Specific planned activities), the real effect (achieved outputs) compared with the effect that should be achieved.

Efficient operation means operations in which the results of some activities match goal or desired effects should be achieved.

Budget user works effectively when successfully achieved the desired results, general and specific objectives and policies, that it wisely spent.

In other words, this means that resources spent and implemented activities result with realization of the set objectives of the operation and the results/effects to be achieved.

An example of efficiency :

Reduced incidence of diseases as a result of medical care/health care, improved health and quality of life and reduce the mortality rate.

By applying a series of measures and indicators of success of the operation (such as reliability, accuracy, timeliness etc.) it is possible to assess the effectiveness of the budget user.

Interconnection of economy, efficiency and effectiveness

Economy, efficiency and effectiveness should be viewed as a whole, for example, there is no sense to do something in cheaper way if it does not achieve the desired result.

Budget user can make something in cheaper way and work economically, but it does not mean that it is effective in the same if it does not achieve the desired results.

Economy, efficiency and effectiveness are interconnected so that the limits in practice among them are rarely clearly displayed.

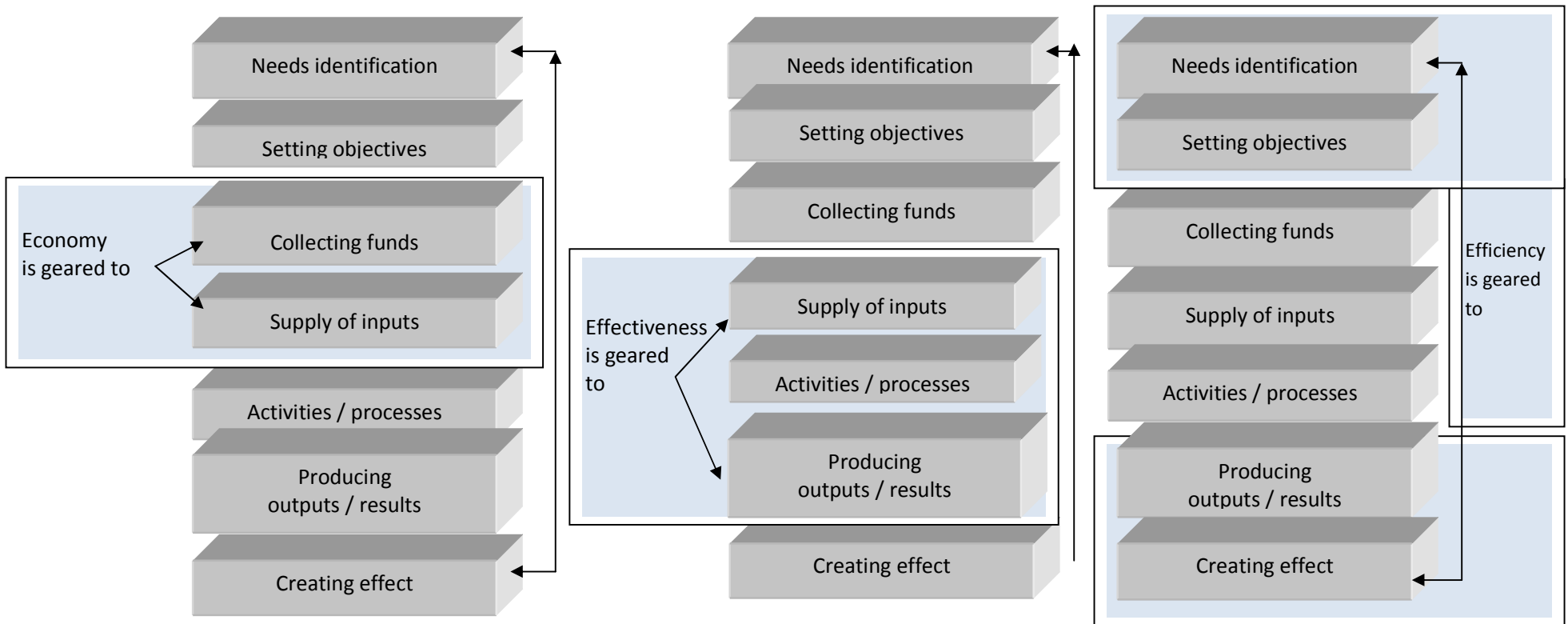
For measuring the economy, efficiency and effectiveness is needed to clearly know the needs of service users, business objectives, to establish performance indicators by which monitor the realization of the effect, monitoring the operational costs and similar.

With the development of strategic planning creates prerequisites for greater measurement of economy, efficiency and effectiveness of operations of budget users in public sector, so that from the budget user is request to determine the general and specific goals, defining the manner of realization and identification on indicators of results and indicators of success.

Pictorial representation which points the orientation on the economy, efficiency and effectiveness in context the elements of the strategic plan (objectives, activities, results, effects) and necessary resources for their implementation is given in the following figure.

Relation of economy, effectiveness and efficiency in delivering public services

ECONOMY - to spend less	EFFICIENCY - to spend good	EFFICIENCY - to spend wisely
To collect the required amount of resources with adequate quality delivered at the right time and on the right place, with the lowest cost	1) With the same resources to achieve better results 2) With reduced resources to achieve the same results	Implemented activities and spent resources resulted with achieving the set objectives and effects that are expected to achieve



For easier understanding of this figure and relations of economy, efficiency and effectiveness further clarify notions inputs, activities/processes, output/result and effect.

INPUT includes all of the resources spent within the program in order to provide certain services.

It may be human and financial, as well as use of property, such as offices.

ACTIVITIES/PROCESSES represent things that the budget user undertakes to inputs to achieve certain results (outputs) outcomes. It is a measure that shows how good budget user uses his inputs to achieve results (outputs).

Measures of activity are often in the form of a "verb phrase" and often are initiative (*development of a plan, implementation of study, training or construction the road*).

OUTPUT/RESULTS/OUTCOME is a manufactured goods or service provided by the budget user or direct products or services that stemming from the activities of the budget user.

The results (outputs) should be measured by quality and size. The quality of output is often more difficult to determine than its size.

However, with proper technique, quality can be measured taking into account factors such as reliability, accuracy and timeliness of results or outputs. They are put in relation to quantities/volumes of work performed (*number of developed plans, number of cities in which Training is held or kilometers built road*).

IMPACT/OUTCOME: desired result, achieving what we want to achieve with some activities. It is used for recipients of services - citizens, customers - or the effect that feel the recipients of services that are covered by a separate program.

The desired effect would be, for example, a healthy population, and for that to achieved, different activities are needed: it is necessary to build hospitals, to educate people about healthy life, producing healthy food (all indicated would be a result or output). Measures the effect usually in the form of a "noun phrase" (reducing the crime rate, increasing skills or percentage reduction of time required for daily migration of workers and so on).

Example of a description of the activities of the organizational units for Financial Affairs in the part of coordination of financial management and control

Organizational Unit for Financial Affairs:

- carries out coordination of the development of financial management and control in institution;
- coordinate the preparation of the plan for the establishment and development of financial management and control;
- participates and helps on managing officers of other organizational units in the establishment and development of proceedings and procedures related to the preparation, processing, flow and archiving of financial and other documents in all segments of operation in the institution;
- is geared towards the establishment of internal controls and risk analysis in the institution in the area of monitoring revenues and inflows, execution expenditure and tangible assets, public procurement procedures and projects management in order to carry out works within the scope of work of the institution;
- participating in the preparation of reports on the functioning of the financial management and control system;
- coordinate the development of financial management and control and provides support of other leaders in the development of financial management in the whole organization;
- in cooperation with other managers devise the development of previous and additional controls in the processes of planning, implementation and monitoring the implementation of the budget funds;
- if necessary, initiate drafting internal regulations (guidelines, regulations) by which is edited job description, duties, authorizations and responsibilities of individual participants in the processes of planning, preparation of programs, monitoring the implementation of the programs, processing of financial documents, internal Reporting on the implementation of the budget funds and the objectives achieved;
- in cooperation with other managers encourage the development of accounting systems or provides support to managers in devise records of costs and other relevant financial information, and the content and structure of internal reports for timely and effective financial management;
- indicates shortcomings;
- initiate measures to remedy deficiencies;
- cooperate with the Central Harmonization Unit in the Ministry of Finance and submit the prescribed reports and documentation required.

Balanced Scorecard (BSC - balanced targets system) - the method of measuring the success

1. Introduction

The development of strategic planning in terms of defining the objectives, linking objectives with budget funds and defining performance indicators, requires and development the way of monitoring the effectiveness of the public sector. Often success in the public sector is perceived only through the implementation of the budget/financial plan, or if the budgetary user realized the budget / financial plan in accordance with the amount and type of budget/plan, and whether the regulations are respected.

However, success in the public sector means much more, seek answers to the questions whether the Citizens are provided high quality, fast and accurate services and information, whether budget funds are spent in a proper, ethical, economical, efficient and effective manner, whether the organizations providing services to citizens are interconnected and if they have qualified and educated employees, whether inside an organization that provides services to the citizens working processes are effective, and similar.

For the purposes of measuring the success of budget users at central level, the development of strategic planning, except the obligation to submit classical financial reports is introduced the obligation for reporting of objectives achieved towards defined indicators and at level of municipalities by adopting municipal development strategies is introduced an obligation for reporting the Ministry of Local self-government for implementing the municipal development strategies. Also, by submitting a financial plan is imposed an obligation to submit an explanation of the financial plan and budget users to be able to draw explanation they must prepare a report on the achievement of objectives and results of the programs and provide information on the results and indicators on which to base calculations and assessments of the necessary funds to implement the programs.

Measuring success in the public sector is quite complex and to be successful means to meet the needs of users, responsible to manage assets and people (employees) and efficiently organizing the business processes.

2. Main features of the BSC model

One of the methods for measuring the success of the operation, i.e. achieving the goals set in the public sector is the BSC method. It is a method frequently used in the private sector, but more often is used in the public sector. BSC method starts from the basic assumption that financial indicators are not only and sufficient performance indicators, but that by four (or more) segments can get a balanced view of the measurement results of success of an organization's operations.

The implementation of the BSC method is not simple and should be seen as an individual process for each entity. Namely, each budget user is specific and implementing the BSC model must be adapted to the specifics of each user or department.

Due to the complexity, BSC model can be applied only to a specific organizational unit within the organization, or only for implementing a program which is necessary and which implementation should be viewed through different segments.

As already mentioned, following the successfulness of the operation is perceived by different segments. Besides key financial segment, it is important through quality selected indicators to monitor the effects of actions for achieving the goals of the budget users, then the quality of business processes within the organization, and the organization and functional connectivity between its structures and employee satisfaction in organization.

All this listed represent four basic segments of the BSC method for measuring successfulness: CUSTOMERS, FINANCES, PEOPLE AND PROCESSES.

A. CUSTOMERS

In the segment of customers we must always ask what they expect and how will be measured whether they are satisfied with the services provided by the public sector. Namely, the public sector should be at the service of its citizens, we must not forget that the citizens as taxpayers, financing the public sector so that consumers expecting fast, accurate and quality services.

Some of the indicators of poor successfulness in providing services to costumers can be: a big number of complaints/appeals on decisions, delays in deadlines for answering questions of citizens and so on.

A successful example for measuring successfulness in health services could be when the set target is population older than 65 years within one year to perform a specific medical examination. Measurements of successfulness in the segment of costumers, can be monitored by the number of persons which in predicted group are conducted a specific medical examination, as well as what kind of grades given costumers of that examination for the organization in the questionnaire.

B. FINANCE

In the segment of finance monitoring whether is provided financial responsibility, how to increase their income, how to reduce costs, how to better planning funds and how to better manage the budget and how to improve budget control and the risk assessment. Without a financial perspective and financial indicators of successfulness, there is no successful application of the BSC method.

Some of the indicators of poor results in this segment can be: significant disagreement on budget and results (outputs), too much added costs or excessive write-offs of debts.

A successful example for measuring successfulness in finance segment can be when the local self-government unit has set a goal: cost reduction (savings – avoiding unnecessary retention of money in special accounts, payment of interest on borrowed funds and transaction costs to transfer money from account to account), and measuring the successfulness in achieving this objective is monitored through the implementation of the Treasury system in Ministry of Finance.

W. EMPLOYEES

In this segment employees are monitored, and special attention should be paid to the skills and competences of staff, technological infrastructure and working environment.

Budget users in accomplishing the mission and achieving operating objectives must primarily rely on the skills, knowledge and ability of the employees themselves, and thereafter on good working climate between employees and technological structure that appropriately gives support to the employees in a simple, transparent and effective way to perform their tasks.

Some of the indicators of poor successfulness in this segment can be, for example :lack of clear descriptions of duties and responsibilities or they are not documented, big number of absences from work, sick leave and overtime.

A successful example for measuring successfulness in the segment of measuring employee satisfaction can be when we have a goal to advance the knowledge of staff for financial management and control, measuring successfulness in achieving this goal we follow through a number of trained internal auditors and the number of held seminars for financial management and control, that went through all employees in the organization.

D. PROCESSES

At the center of this segment is the implementation of key internal processes of the organization in its operations. After identified key business processes business activities are upgrade, however, given the diversity of the public sector, key business processes and various, so that and in this part of the BSC model must be applied in a way to meets the specific circumstances of each work area. This perspective includes objectives in areas such as: improving service programs, improve workflow planning ect.

In the public sector for improving business processes, i.e. changing their successfulness must always ask question: how to improve the quality of services, to increase the transparency of providing services, to introduce modern tools in providing services and so on.

Some of the indicators of poor performance in eg the segment of the labor procurement process may include: excessive use of the emergency procedure, unforeseen purchases, disregard of procurement plan, too often return the goods to the supplier and so on.

A successful example of measuring the successfulness in the segment of measuring the effectiveness of the business processes can be when our goal is better connection with citizens' needs and measure achieving that objective through a number of answers to questions from citizens within 48 hours.

In BSC method it is necessary in each segment to determine the objectives, causal relationships among them (strategic map), defining performance indicators and target values, and activities that will enable the implementation of the strategy and achieving the goals set in the amount of determined values.

3. Conditions for implementing the BSC method

To be able to apply the BSC method, must be satisfied some basic conditions, such as:

1. The existence of a strategic document
2. set clear objectives (general and specific/strategic goals and priorities)
3. quality selected indicators
4. good system for data collection,
5. clear measures and their limited number,
6. good organizational structure with a clear division of authorizations and responsibilities,
7. goals are clearly associated with the funds
8. support the heads of the budget users in applying the BSC method that must be real and not only formal.

If these conditions are not met, then the user budgets are facing with big number of problems in implementation of the BSC method.

However, if the basic conditions are met for applying the method of BSC and if it is properly used, then the implementation of the BSC method must result in:

- achieving goals,
- promoting processes,
- more efficient and effective use of resources,
- motivated/trained employees,
- improved information systems,
- the ability to monitor progress,
- greater customer satisfaction.

4. Conclusion

The annex in addition to the Manual for Financial Management and Control is not intended to impose the obligation to apply the BSC model on budget users in the Republic of Macedonia, but the intention of the Central Harmonization unit is to indicate in which direction to go, or what this method includes and in which ways can measure the success in operation, with particular emphasis on key assumptions for measuring successfulness.

Namely, except the quality of financial management is necessary to be recognized and successfulness of operation and for its measuring the conditions are crucial. By fulfilling the conditions i.e. by development of strategic planning, setting good goals that can be measured and for which fulfillment we predicted quality measures, which have their own connection with the budget funds, and the existence of well-defined indicators will help in measuring their own successfulness, regardless of whether we apply the BSC method or any other method. In this process of measuring successfulness especially important are reports, and reports linking financial parameters with non financial parameters, because in fact with the notification is obtained feedback information on successfulness, which can then result in changes in already existing strategic plans and improve future strategic plans (better set goals, better prepared measures, better defined indicators, higher quality connection of the objectives and budgetary funds, etc.).

The public sector as well as private sector is obliged in its financial management to lead account for the application of the principle of "value for money", and it means that when providing services to citizens to meet quality standards and it to make in economical and efficient way, i.e. to spend as little funds, and ensure quality service.

AN INTERACTION OBJECTIVES, PROGRAMS AND BUDGET RESOURCES EXAMPLE OF MINISTRY AND THE MUNICIPALITY OF TOWN

Example - central level (Ministry - Strategic Development Plan)

Mission: Establishing and ensuring the implementation of quality standards for environmental protection and nature development Republic of Macedonia sustainably²⁶

Vision: Green and developed Republic of Macedonia

Goal: Environmental protection

Specific objective: 1.3. Establishing and developing a single information system of environmental protection (ISEP)

Connection between the way of accomplishment, program and budget / financial plan

Manner of execution	Result Indicator	Performance Indicator	Program	Activity / project in budget	Financial plan (2016)
1.3.1. Linking all existing data and Information flows using modern tools (gateway/portals) with reception data in electronic form, providing authorization to the sender/receiver	1.3.1.1.degree of end on ISEP, 1.3.1.2. Percentage of collected, processed and entries in the database and prepared statements based on they			A730007 Information system for Protection of the Environmental Environment	3.232.300
1.3.2. Exchange of environmental data with existing similar systems at EU level and Member States relating to EIONET	1.3.2.1. Processed and analyzed data in accordance with international and European Methodology	Percentage of filling -functionality of the ISEP	3402 Protection of Environmental Environment	A730009 Projects with international institutions	410.000
1.3.3. Improving the quality and	1.3.3.1.Primary delivered quality Data			A730029	1.402.300

²⁶ Modified Mission regarding the mission of the Strategic Plan of the Ministry

Completeness of data and information	<p>1.3.3.2. Requests for additional verification of data quality</p> <p>1.3.3.3. Instructions and answers to the questions of the persons who are obliged to submit data</p>			<p>Reporting on the state of Environmental Environment</p> <p>T300045</p> <p>Strengthening the flow data system and indicators related to issues of protection of the Environmental Environment</p>	1.110.000
1.3.4. Maintenance of the information system for Protection of the Environmental Environment	<p>1.3.3.4. Increasing the percentage of regular Work of Information System for Protection of the Environmental Environment, with a small number of Critical incidents</p>			<p>A730007</p> <p>Information system for Protection of the Environmental Environment</p>	1.662.451

Example - Municipal level (Strategy for Local Economic Development of the Municipality _____) ²⁷

Mission: To be at the service of its citizens, institutions, economic and other entities that with its activities and services constantly working on improving the quality of life and work

Vision: XY Municipality is area of satisfied people that their potential realize in terms of sustainable development and social justice

Strategic goal (general purpose): Competitive Enterprises

Priority (specific objective): Promoting economic development

Connectivity measures (manner of exercise) programs/activities and a financial plan for a period of three years

Measure	Result Indicator	Performance Indicator	Program / activity	Financial plan	Municipality budget	State budget	EU funds
Technological Industrial developing zones (TIDZ)	- Number of small TIDZ - Number of companies in TIDZ - Number of employees in TIDZ		Development of small TIDZ	60.000.000	20.000.000	10.000.000	30.000.000
Cluster development	- Number of companies involved in clusters	Economic growth activities which are seen in increasing the number of employers and employees by 10% in three years	Program for establishing Cluster	3.000.000	1.000,000	500,000	1.500.000

²⁷ The example is a combination of different strategies for local economic development in municipalities

Development of financial and other instruments for Supporting entrepreneurship	<ul style="list-style-type: none"> - Number of issued guarantees within the local warranty fund - Number of approved loans, guarantees and other Financial Products 		Local Guarantee fund	25.000.000	12.500.000	12.500.000	0
Secondary education slight Entrepreneurship	<ul style="list-style-type: none"> - Number of trainings, - Number of educated entrepreneurs 		Program for education entrepreneurs	1.500.000	1.000.000	500.000	0

Example - level city (Strategy for development of the city)²⁸

Mission: Quality of life of the population in general social and economic progress, while respecting the principles of sustainable development

Vision: A modern, open and economically competitive city with a recognizable heritage

Strategic Goal (General objective): Development of human resources and improving the quality of life

Priority (Specific objective): Priority 6. Development of educational, health, cultural and other social infrastructure

Connection of development projects within the priorities with the Plan of development programs of the City (for three years)

Development project	Results Indicator	Performance Indicator	Activity	Financial plan
71.Rekonstruktion cinema NN	<ul style="list-style-type: none"> - Number of visitors to the cinema - Number of held cinema performances 	<p>Active and attractive social life of citizens in the city that is seen in increased number of attendance projections / performances by 25% within three years</p>	<p>Project for editing former cinema NN</p> <p>Reconstruction of former cinema NN in multipurpose hall</p>	<p>80.000</p> <p>2.000.000</p>
56.Building of primary	Number of sports training	Increased involvement	- Project of primary school NN	35.000.000

²⁸ An example is the result of free combinations

school NN with a triple sports hall	Number of sports events	students in extracurricular activities by 50% within three years	- Capital investments in primary schools	5.842.000
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Example - the municipal level

Mission: The municipal administration continuously through its activities and services to improve the quality of life and work in the community and It provides all citizens outstanding services, enabling participation in decision making and responsible management of public goods, the flow of information and, above all, a kindly, efficient and transparent operation of the administration.

Vision: desirable and safe community in which the original values are stored and correctly and professionally carry out the activities and procedures in space.

Strategic goal (General objective): Preservation of natural, cultural and traditional heritage

Priority (Special / Target): Promotion of culture

Connection of the Program for public needs in education, culture and religion in the Municipality in 2016 budget

Budget program	Result Indicator	Performance Indicator	Activity	Budget 2016	Risks
Work of the library and reading room	1. Number of new books library fund 2. The number of held playgroups 3. Number of held workshops	Increased number of citizens of the municipality that use services of the library and the reading room, which perceived in increased number of library and the reading room members for 30% in three	Basic activities (Expenditures for employees, material costs Financial expenses) Purchases of materials and equipment in Library (Expenditures for purchase of fixed assets)	658.920,00 232.000,00	1. Lack of competent staff in procurement process can lead to the necessary materials are not to be purchase at 2016 or procured false supplies 2. Lack of training of employees for preparation and organization of the playrooms for pre-school children may result in poor quality and cut workshops interest of children 3. Lack of training of employees preparing and conducting workshops for high school and

		years	Playrooms & Workshops (Material expenditures)	28.300,0	primary school's children Amendments to legislation governing financing of local government may lead to a reduction budget, which will result in the cancellation or reduction of funds for procurement of materials and maintenance of playrooms and workshops
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Table - Linking strategic plan and budget

General objective	Specific objective	Program in the State Budget	Performance Indicator (Output / result)	Method of achieving specific objective	Activity / project in the State Budget	Result Indicator (Output)
General objective1.	Special objective 1.1	A123456 PROGRAM X	Performance Indicator	Manner of achieving 1.1.1.	A123456 ACTIVITY A A234567 ACTIVITY Б K123456 PROJECT B	Result indicator 1.1.1.1. Result indicator 1.1.1.2. Result indicator 1.1.1.3.
				Manner of achieving 1.1.2.	A456789 ACTIVITY Г K234567 PROJECT Д	Result indicator 1.1.2.1. Result indicator 1.1.2.2.
	Special objective 1.2	2345 PROGRAM Y	Performance Indicator	Manner of achieving 1.2.1.	A987654 ACTIVITY Ѓ K456987 PROJECT E T321654 ПРОЕКТ Ж	Result indicator 1.2.1.1. Result indicator 1.2.1.2.
		6789 PROGRAM Z		Manner of achieving 1.2.2.	A123789 ACTIVITY З A456123 ACTIVITY И K456987 PROJECT J	Result indicator 1.2.2.1. Result indicator 1.2.2.2.
General objective 2						

