



# **Financial Management and Control within Overall Public Administration Reforms**

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# Summary of main messages

1. In order to develop more advanced elements of FMC, some basics need to exist in any public administration  
*These basics are often developed through other government reform areas, such as civil service, strategic planning or budget management*
2. More advanced objectives like efficiency and effectiveness are also determined through decision-making processes that are not usually driven by the CHUs
3. Contrary to PIFC, public administration reform does not have a specific chapter within the EU accession process to push for changes

# FMC as part of EU accession process

The Chapter 32 includes:

- Financial Management and Control (FMC)
- Internal Audit (IA)
- External Audit (EA)

FMC appears the most difficult to advance

- a) It cannot be built from zero
- b) It is more than financial controls – it is about internal controls as defined by COSO
- c) Interdependent with a variety of existing practices, interests and traditions within the public sector

# FMC and management

- FMC can be properly implemented only when there is good management
- FMC alone cannot drive managerial reform
- FMC needs to rely the need for 'trust', 'loyalty' and 'accountability'

There is consent that success in FMC is dependent on other reform areas relevant to public management

# What is public administration reform?

- Public administration is the organised state apparatus that ensures the accomplishment of the executive power's missions and responsibilities
  - subjected to the rule of law, i.e. to internal and external controls
- Public administration reform (PAR) is about making changes in:
  - the legal administrative framework of the state and
  - its administrative/managerial practices in order improve the functioning of the state

# PAR includes financial management

- A holistic approach towards PAR includes efforts at least in:
  - Civil service and public sector human resource management
  - Administrative organisation, procedures and oversight
  - **Financial management**
  - Policy-making and quality of legislation
  - E-government
  - Improvement of public services
  - Multi-level governance

# Examples of concepts relevant to FMC

- Delegation and empowered decision-making
  - Accountability and performance
  - Risk management
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1. These issues are not only about financial controls
  2. Doing these in a way to achieve value for money, requires trust and a high level of professionalisation in public management capacities

But what are the basics?

# Examples of basics for FMC

*The following are important for the success of FMC in any country*

- Clarity and transparency in responsibilities between public sector organisations
- Recruitment procedures that are transparent, enable the appropriate manager to influence the process and focus on merit
- Administrative procedures that ensure accountability for the delivery and quality of public services
- Regular annual work planning
- Provisions requiring estimations about cost implications when new projects and new laws are proposed
- Transparent public procurement procedures and practices
- Strong treasury function and clear cash management and accounting rules, with reliable accounting information



# More advanced objectives of FMC: efficiency and effectiveness

Key processes where value for money is determined:

- Deciding the right strategic direction
- Making optimal choices for individual actions and allocating resources in the budget process
- Public procurement
- Management of assets, using these to the maximum potential

*None of these are usually elaborated and developed by the CHUs but are important for the objectives of FMC*

# Sequencing of reform steps

Sequencing is needed but is more realistic within narrower reform areas,

- such as civil service, budget management, strategic planning or public procurement

Sequencing more widely is difficult:

- Many areas of PAR are interdependent
- PAR needs to be often opportunistic

# Ensuring progress in PAR

- FMC, as part of PIFC, is driven by chapter 32 in the accession process.
  - Hence demonstrated progress is needed for the EU candidates
- PAR has a growing emphasis within the regular progress reports by the EC but still not well enough supported by the accession process
  - Does not include any provision of standards or sequencing for the EU candidates

# Potential solutions by the countries

## *ideas for discussion*

- CHUs to work with locally perceived problems, even if these seem very basic
  - CHUs to drive in-depth analysis to detect problems with implementation
- To move the focus to PFM strategies that include PIFC targets
  - Coordinated with wider PAR initiatives
- Work to optimise and improve existing procedures
  - Methodology units for budget management in MSs
- Create stronger gatekeepers for financially sound decisions
- Transparency at all levels of decision-making