Internal budget control

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Abstract

Internal control is established by the Government to ensure effective and proper operations of ministries, institutions and generally of all public agencies, in compliance with the law, the goals and objectives stated by them, to provide protection against abuse and mismanagement or poor governance.

The instrument of internal audit entails a series of mechanisms which aim at enabling budgetary policies compliance, such as: financial reporting; effective system of communication between managers and staff; checks on accounting; control over processes and control over procurement.

Generally, duties of internal control officers within ministries and institutions must be clearly divided to reduce the risk of incorrect behaviour. Operations of an efficient control mechanism influence and ensure conditions for rule of law, good governance, and democracy.

Key words: budget, general control, accountability, compliance with the budget law, public funds.

Introduction

This paper aims at addressing and providing information on budget control, and a closer look on the internal budget control. I will comprehensively address internal budget control, objectives, responsibilities, principles and prior conditions for an effective control, control limitations, systems, benefits of control, and by the end of the paper, the final conclusions.

Public finance controls have a great impact not only in ensuring transparency of public finance management, but also in strengthening market economy, competition, economic development, and in improving citizens' welfare.

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The Internal control has a key role in ensuring a sound financial management of public administration, and is a key objective for most of the governments. No system of control can represent an absolute warranty against the risk of abuse or error. Any system aiming to achieve such an objective, especially in complex budget organizations or institutions, would require proportionally much larger costs than the risk itself, and would seriously impede the work of such a budget organization or institution.

Internal control may ensure reliability of financial statements and compliance with laws and regulations. Public finance control must ensure that public funds are well managed and in compliance with legal acts and international standards, that the funds are safe, properly accounted for, and in compliance with goals and objectives in the most economic and efficient manner. An internal control system, independently of its structure or its operations, may only provide reasonable security, not absolute security, to the management and steering bodies in terms of achieving objectives of budget organizations. The possibility of achievement is influenced by substantial limitations of control systems. In some cases, opinions in decision-making may be erroneous, and these failures may occur due to simple mistakes, or misunderstanding, or poor management. Furthermore, control may be erroneous due to conspiracies between two or more persons, and control may provide inaccurate or erroneous information, which in turn adversely impacts all decisions reached upon such information.

Budget control is a complicated process, which imposes the necessity of good planning and proper organizational regulation. In controlling budget realization, the indirect role of citizens, respectively tax payers, cannot be avoided. Nevertheless, to take part in budget control, citizens must be informed with the manner in which budget funds are spent. Improper and erroneous expenditure of budget funds by officials who are responsible for management of public funds should be subject to sanctions provided by legal provisions.

1. The meaning of internal budget control

The word control is rather frequent. It is used in most diverse fields of human activity. In a wider word, the word control means oversight, verification or clarification of a situation. The word control seems to have derived from French, control, and it might have come from the Latin words contra rotula, by which in the 17th century, people used to term a copy of contract, decision, judgment. Control means *the action of investigation and comparison of data, and the action of ascertainment of certain facts.*[1]

Control is a process which provides information on financial statements or other financial records in an institution or organization. Internal control is

[1] Gorani Hajrullah, Enterprise control and audit (Kontrolli dhe revizioni i ndermarrjeve). Pg. 12. Prishtina, 2008

aimed at verifying whether the duties, the mandate is being complied with, to identify weaknesses and exemptions. Internal control is undertaken with a view of correcting and preventing deviations and their repetition.[2]

What do we mean by internal financial control? Internal public finance control is a whole system of internal control, which is exercised by public bodies, to guarantee that financial management of the public sector units is in compliance with respective legislation, that budget requirements and principles of financial management are implemented in transparency, economization, effectiveness and efficiency. Internal public finance control entails all activities with a view of controlling income, expenditure, and assets and liabilities of public bodies. Control also includes central harmonization and coordination of financial management and control, and internal audit.[3]

Internal control operates independently within the organization or institution, with duties on reviewing leadership processes, budget management, income, expenditure, procurement, asset management and general administration. Hence, internal control, as we stated above, covers the whole set of financial control and other control systems, accounting and administration systems, and also includes organizational structure, methods, procedures and inspection of the public institution or organization.

Internal control is an effective mechanism to prevent corruption and financial fraud. The objective of internal control is good governance, or good management and fight against corruption, mismanagement and fraud in institutions and organizations using public funds.

1.1. Prior conditions to internal budget control

Internal control is a responsibility of senior management of a budget institution or organization. To create and maintain effective internal control, the senior management of such organization or institution must, first and foremost, be engaged in an effective management of the organization, and to show personal and professional integrity. Internal control requires the existence of a solid control environment, and a coherent framework of systems and procedures. Another prior condition is a diligent and proper evaluation of risks threatening the organization or institution, and identification of right checks for managing such risks. In a complex institution or organization, this might be a tough task, for which the senior team might require expert assistance. External and internal auditors often provide the source of such assistance. Controls which are set to be used must be such that in practice, they are useable by organization managers, although with the risk of creating difficulties in daily

[2] Mustafa Isa, Financial Management (Menaxhmenti financiar). pgs. 116-117. Prishtina, 2007
[3] Source: Draft Law on Financial Management and Control in Albania, Article 4

operations and activities, and to be used by all levels of such budget organization.[4]

To be effective, control must observe several principles, such as: Control must be developed in compliance with the nature of work and organization of a budget institution or organization. The clarity of the organizational model is a prior premise for control effectiveness. Coordination of control and planning refers to an organic bond between planning and control. The following are important conditions for a fairly integrated system of control:

- Low cost of control – costs of control are a very important element. It is preferable that costs of a control system do not exceed the losses that would be incurred if control would not be exercised.
- Objectivity – refers to detailed, comprehensible and verifiable information. Also, verification of data obtained from control is a permanent task of the manager.
- Accuracy – if control provides erroneous or inaccurate information, it negatively impacts all decisions taken on the basis of such information.
- Time – refers to the need for the information to be accurate, but also to be provided at the right time. Depending on the situation and safety, the frequency of obtaining information must be set in a system of control.
- Flexibility – control must adapt to new requirements, which spring as a result of organizational changes or changing circumstances in the working range of the organization.
- Comprehensibility – a system of control must be comprehensible for those who use it, and it must be adaptable to their level of qualification to be able to use it.[5]

1.2. Types of internal budget control

A system of internal control is made of principles and procedures approvd by the management in realizing its objectives. Internal control systems in the accounting system provides diligence on implementing objectives of the management, such as: transactions in compliance with general or special allowances of management; asset evaluation and registration compliance with general or special allowances of the management, and inclusion of all transactions in accounting records, all in accuracy and entirety.[6]

Knowing that internal control is set by specific circumstances of any institution or organization, there is no list of controls as a recipe for the whole world. There are several categories of controls and circumstances in which they can be best used.

[4] Source: Public Expenditure Management, pg. 239. Tirana, 2004. Ministry of Finance, supported by the GTZ

[5] Mustafa Isa, Financial Management (Menaxhmenti financiar), pgs.119-120. Prishtina, 2007

[6] Source: International Audit Standards, International Organization of Supreme Audit Institutions, www.intosai.org

Effective communication – managers must know and recognize the fact that when their employees are clear on the mission and objectives of the organization and institution, they perform better in realizing such mission and objectives with their work. Communication channels are a part of management control system. For instance, organization managers must communicate their expectations they have in terms of their employees, who then in turn define their own expectations of performance in specific levels of the organization, which is the groundwork for realizing objectives set. It is important that communication has two directions, top-to-bottom and bottom-up. When the executive sets clear objectives and expectations, workers may often suggest ways in which these objectives can be attained more effectively. Apart from this, in a view of ensuring realization of objectives, managers must prevent and take measures against misuse of resources available to the organization, and to this goal, a series of methods can be used, such as the following:

Physical checks – These may include safety procedures in checking smaller items (e.g. accounts, storage, and products with a higher value, which can be easily stolen).

Checks of accounting records – these may include procedures to be pursued in recording transactions into accounting records. For example, a rule might be set according to which every cash inflow must be deposited to the bank, each day. The person receiving cash must issue a receipt for such money, and deposit a copy to the accounting officer. The person depositing the money to the bank must be required to deposit a copy of the bank receipt for the deposit. Another check might be imposed on expenditure, a comparison with the budget. Expenditures which are not made as planned, nust be reported, while those exceeding the maximum allocation, must be blocked.

Control over processes – These are procedures aimed at ensuring that all actions are taken by necessary authorizations. For instance, issuance of a purchase order, or approval of a larger contract must require presentation of documents by the officer who will deal with them, their review by a purchase officer, and approval of a manager. Larger purchases might require approval of a more senior officer. Transfers of payments to contractors might require presentation of documentation, including original purchase order, receipt issued by the vendor, with a description of goods and services supplied, and a certificate from the officer receiving goods and services. Payments over a certain amount might require approval of a higher ranking officer.

Division of labour – this is about both a measure of control, and a necessary element of any system of control. The main property is that every transaction must involve at least two persons, to reduce the potential of irregular actions, e.g. one person receiving the money, another person deposits the money to the bank, and a third compares both documents and records such information on accounting records. This manner of labour division is a basic element almost in any system of financial control, but its use may, at times, be overdone.[7]

1.2.1. Limitations to internal budget control

Internal control plays a key role in ensuring a sound financial management system in the public administration, and is a key objective for most governments. No system of control cannot be an absolute warranty against the risk of abuse or error. Any system trying to achieve such an objective, especially in more complex organizations, would imply expenditure proportionally much higher expenditure than the risk itself, and would impede the operations of the institution or organization itself. Therefore, an appropriate objective of a system of control must be to provide for a “reasonable safety” that there will not be any irregularities, and if they occur, they will be identified and reported to respective authorities. In due consideration of the above, in setting internal control systems, managers must take into account the following factors:

- **Flaws in scheme conception**. It was already stated that internal control systems must be conceived in compliance with specifics of the organization or institution, operations thereof and the environment they operate in, following a careful analysis of risks involved in any specific case. Managers often tend to shorten the conception processes, by, for instance, adopting control systems conceived by another organization, or from one institution to the other. This may be risky. A flawed conception may strike the impression of safety and warranty, thereby leaving aside the important aspects of an operation, and creating obstacles to another.
- **Poor implementation.** Even the best conceived system would realize its objectives only by a correct application. Managers and supervisors at all levels must be vigilant in ensuring that every person within an institution or a public organization agrees with control procedures in place. Furthermore, procedures set to application must be those assessed and recognized by the employees, so as to ensure that they will not try to ignore them in the first time there are obstacles, or in moments of stress and large pressure at work. The observance of such a criterion is one of the key elements of conceiving effective control systems. Managers must also plan for alternative rules to apply in cases of emergency, when normal procedures are overridden.
- **Poor response to irregularities reported**. Control systems are conceived to respond to normal or usual cases. Nevertheless, for the systems to remain effective, it is crucial that managers and supervisors be able to respond to emergencies in proper timing. Uncommon cases must be investigated in time, to determine whether there are irregularities involved. If there are such

[7] Source: Public Expenditure Management, pg. 240-241. Tirana, 2004. Ministry of Finance, supported by the GTZ

irregularities, prompt action must be taken in correction thereof. Failure to undertake measures in terms of reported irregularities undermines the whole effectiveness of the control system. Nevertheless, one should be careful to avoid a system which is too sensitive, so as to generate false alarms. If that occurs one too many times, valid alarms may be ignored.

- **Secret arrangements.** Any system of control may be undermined if a sufficient number of improper individuals conspire to ruin the system and are able to forge key documents. For such cases, there is a number of rather complex checks which renders difficult the union of a sufficient number of conspiring persons, but their implementation is rather costly. Conspiracies of such a kind are usually disclosed and reported by persons which are not part of them, or when there are divisions between partakers of such a conspiracy. They may also be disclosed in a routine audit process, if they involve larger amounts of money, or if the conspirers have not been diligent in forging documents.
- **Misuse by key managers**. Internal controls are conceived to control the institution or organization to the interest of managers, and not the managers or leaders of the organization itself. There are many examples of dishonest managers who override systems of control to realize various forms of fraud or theft. Nevertheless, in organizations of larger size, these actions are usually easily spotted by employees. Still, the best protection against managerial misuses is creation of an open environment, in which employees are incentivised to report irregularities found, being safe from any punishment in terms of lack of loyalty to their superiors. Such an open form of the institution or organization becomes itself part of the control environment.

Internal control is a basic part of the structure and operations of any institution or organization. The larger and the more complex is the institution or organization, the more diligent the control systems must be. To be fully effective, systems of control need active support of managers in setting up and maintenance.[8]

1.2.2 General principles of internal public finance control

Internal control in the public sector must be based on known principles of its organization, and the most advanced international standards. Some of the principles upon which internal control must be grounded and structured include:

- **Legality:** public internal control is organized and functions based on the Constitution and applicable legal and secondary acts.
- **Standards:** laws and bylaws which regulate the activities of internal control, in due observation of international standards and treaties ratified by the state.

[8] Ibid. pgs. 241-242

- **Authorization:** transactions are approved by responsible authorities, in compliance with general authority, before recording.
- **Wholeness:** valid transactions must be recorded in respective accounting records.
- **Validity:** transactions recorded must present clearly all economic events, legal and executed events in compliance with authorizations of responsible authorities.
- **Accuracy:** valid transactions must be accurate, in compliance with information recorded, in a chronological manner.
- **Physical storage and safety:** ensuring that physical assets and information systems are protected, controlled and limited to use only of authorized personnel.
- **Addressing trouble:** errors found in any stage of proceeding should be associated with corrective actions, and be reported to relevant levels of management.
- **Division of tasks:** the same individual cannot be responsible for controlling recording of transactions, and undertaking such transactions, at the same time.[9]

2. Internal control objectives

General objectives of control are related to compiling financial statements that are complete, accurate and valid, verification of funds and sources of funds, and that reflect the financial situation. A special role of internal control is to ensure that statements are complete, accurate and useful; to review reliability of data; to ensure enforcement of managerial decisions; to disclose and prevent fraud; to undertake initiatives for implementing demands of external control, and to monitor implementation of recommendations;[10]

Objectives of control represent the opinion of Management of fields of risk which must be controlled, with a view of ensuring the attainment of individual goals by the system. The general impact of control objectives, if implemented properly, will accomplish the objectives of such a system. Control objectives form the basis for evaluation of control systems.

Control objectives must be specific and reflect the purpose of control. For instance, in a purchase system, control objectives may include: ensuring that receipts are paid only for goods and services received, “or ensure that only approved vendors are used”. In cases in which the management sets control objectives, it would be necessary to provide the auditor with such data, and for such data to be adequate and appropriate, while if control objectives are not defined, then the auditors would need to define their own control objectives in

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[9] Source: Policy Paper on Internal Public Finance Control (Leter politikat per kontrollin e brendshem financiar public). 2005. http://www.minfin.gov.al.

[10] Mustafa Isa, Financial Management (Menaxhmenti financiar), pg.118. Prishtina, 2007

the report. In this sense, one needs to consult the management every time before evaluation of control.[11] A primary objective of internal audits is to assist in management of the entity, in terms of effective realization of its responsibilities. In this way, the internal audit unit provides analysis, recommendations, advice and information in terms of activities reviewed within the institution.

Some of the specific objectives of internal control units are: to determine suitability and effectiveness of internal control systems of the public entity; to review reliability and integrity of information, and means used to identify and measure, classify and report such information; to review the rules of asset and property recording, and as needed, to verify their existence; to review systems in place to ensure compliance with set policies, plans, procedures, laws and rules which may have an important effect on operations and reports, and to define whether the entity is in compliance with them; to present an annual control plan to the senior management and audit committee for review and approval; and to undertake assessments for inspection, investigation, examination or reviews which may be required by senior managers.[12]

Internal public control is preventive, and its main purpose is to ensure that systems are adequate for a state, to prevent as much as possible the occurrence of corruption and financial fraud, financial mismanagement in central and local institutions, and organizations using public funds and in public enterprises.

2.1. Responsibility for internal control

The Minister of Finance is the government entity responsible for general coordination and development of standards and procedures for activities of internal controls.[13] The responsible entity for internal control in European Union Member States, the ministries of finance, not only have a key role in preparing budgets and allocating funds to other ministries, but they also directly intervene through such internal controls, with its staff, in other ministries.

In several other EU Member Countries, a second method is used, in which every ministry has full responsibility for spending its budget, and for ensuring required controls. It must be stressed that in many cases, this responsibility is delegated from the Ministry of Finance, but in any case, the ministry of finance maintains authority of supervision and setting rules, with a view of ensuring a consequent system in each ministry. Internal control implies a unification of

[11] Source: Internal Audit Manual (Doracaku i auditimit te brendshem). pgs. 25-26. Prishtina, 2004
[12] Nderja Gjon, Internal Audit (Audimi i brendshem). pg. 6. Kosovo Institute for Public Administration
[13] Ibid, pg. 12.

systems, methods and process of management activities, and not a specific unit in a single ministry or any other budget organization.[14]

In many countries which have recently accessed the European Union, there are no systematic internal control procedures, but some countries have a "government control office", or "control units", based on experiences of pre-accession regimes, which investigate complaints from the public directed against employees, and may also investigate irregularities or cases of theft, before the case is submitted to the judiciary or tax police. Nevertheless, these units are not part of financial and administrative controls in a more systematic structure.[15] Necessary functions of internal control must be undertaken by departments of internal control in respective entities.[16]

2.2. Internal Control Systems

Internal control systems are built to neutralize risks, though it is rather clear that they bear considerable differences from a country to the other, in reflection of culture and administrative tradition of these countries. A well-functioning system of a country might not be appropriate for another country. Internal control may be defined as: organization, policies and procedures to ensure that Government programs achieve desired outcomes; that resources used to realize programs are in compliance with goals and objectives set by interested organisations; that the programs' flow does not fall prey of losses, fraud, and maladministration; and that reliable and prompt information is obtained, stored, reported and used for decision making.[17]

Internal Public Finance Control comprises a comprehensive and consolidated control system, based on internationally recognized standards, determined and set for implementation by the central and local government, or an authority to which such competency is transferred, in the manner of guaranteeing financial control and good management of public funds.

The Internal Public Finance Control systems are built upon the following three key pillars:

- Sound financial control and management systems, as a primary responsibility of managers in any public spending centre, with a special focus on minimal requirements of internal control.
- Independent and objective service of Internal Audits, to support the management and to provide advice and security that management and control systems are built in compliance with rules and standards, and grounded upon sound financial management principles.

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[14] Public Expenditure Management (Menaxhimi i shpenzimeve publike) pg. 238. Tirana, 2004. Ministry of Finance and GTZ

[15] Ibid, pgs. 228-243.

[16] Ibid, pg. 251

[17] Public Expenditure Management (Menaxhimi i shpenzimeve publike) pg. 236. Tirana, 2004. Ministry of Finance and GTZ

• Central services at the Ministry of Finance – to draft and implement a harmonized methodology and standard quality of Financial Management Control, and Internal Audit systems.

These three pillars are built upon the principle of managerial accountability; the oblication of all managers of public sector organizations to pursue and implement principles of good financial management and legality in managing public funds.

Internal control is also subject to international standards. Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI) on standards of internal control in the public sector define internal control with the following wording:

“Internal control is an integral process that is effected by an entity’s management and personnel and is designed to address risks and to pro- vide reasonable assurance that in pursuit of the entity’s mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage”.

Internal control is a dynamic integral process that is continuously adapting to the changes an organisation is facing. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity’s mission and general objectives.[18]

2.2.1. Getting familiar with internal control and risk assessment

An internal control system is made of principles and procedures set by the management in realising its objectives. Internal control in accounting systems takes care of realization of management objectives, such as: undertaking transactions in compliance with general transactions in compliance with general or special allowances of management; asset evaluation and registration compliance with general or special allowances of the management, and inclusion of all transactions in accounting records, all in accuracy and entirety. A primary goal in this stage is assistance in audit planning and control risk assessment. This means identification of abilities of internal control in preventing material errors, or identification and timely correction thereof. Hence, in assessing risks, an auditor must be knowledgeable to understand how management addresses risks related to objectives of financial statements, and how it chooses actions to address them. This knowledge also includes the

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[18] Source: Policy Paper on Internal Public Finance Control (Leter politikat per kontrollin e brendshem financiar public). 2005 . pg. 10. http://www.minfin.gov.al.

manners of identification of risk, assessment of relevance, and possibilities of their occurrence, and linking them with financial statements.

An audit risk is a combined risk, when the auditor expresses an inappropriate opinion on a material error in financial statements. This risk comprises the following components:

- **flowing risk** – is an internal doubt that an account or a transaction class presents a material error, thereby assuming absence of respective internal control, e.g. evaluation of high technology stocks, where depreciation is a flowing phenomenon.
- **Control risk** – is a risk when internal control fails in preventing material errors, or in identifying and correcting them in time. This may happen, for example, as a result of fraud or erroneous presentation, which may be an aim of secret agreement of employees.
- **Risk of discovery** – is when during audits, no material error is found. This may happen, for example, due to wrongful sampling. Note: material error in this context means an error which may be material individually, or together with errors in accounts or other classes.

The relation between risk of discover with a joint rate of flowing and control risks is inverse, e.g. if the flowing risk and control risk are both high, the rate of risk of discovery should be smaller, to enable reduction of audit risk to an acceptable level[19].

2.2.2. Use and necessity of internal control

Today's management of public institutions and enterprises, with their extent and giant volumes, is increasingly difficult. Every institution and large enterprise is made of many departments and divisions, which renders supervision of thousands of employees in various sections difficult, if modern management methods are not recognized and enforced, and if modern electronic technology is not used.

Only in this way can collection of various information be possible, so as to enable directors, who do not have a possibility of personal supervision and monitoring to determine outcomes of enterprise's or institution's functions, to use this information for rendering just decisions. But, reliability of information and economic and technical data depends on procedures pursued and permanent control, and their assessment. This requires uninterrupted internal control, to see whether objectives and strategies of the enterprise or institutions are strictly complied with by different levels of management, whether the expected outputs are realized if there is an enterprise, if evasions are clearly accounted for, and whether they are reported to competent persons, and

[19] Source: International Audit Standards, International Organization of Supreme Audit Institutions, www.intosai.org

ultimately, whether necessary correction actions are taken by the institution or enterprise.

Internal control gains more relevance in terms of external independent accounting experts. Internal control systems and quality used by the enterprise shall determine the standard and procedures of internal control. Independent accounting experts analyse and evaluate internal control systems until convinced with reliability of accounting data, and determine programs and calendar of control procedure, which are necessary to provide an opinion on confidence and reliability of financial statements.[20]

2.2.3. Link of internal audit with internal control and external audit

Internal control and internal audit both aim to contribute in strengthening efficiency and legality of budget realization. Differences are found in responsibility, in which sense internal control is a responsibility of management, while internal audit is a responsibility of the internal auditor. For internal control, managers may use many means to achieve objectives of control, while audits must be limited to the means allowed to execute audits, in which the influence of auditors is indirect.

An external auditor is an independent institution, which bound to remain objective and independent in providing opinions on financial statements, and in providing recommendations to improve the performance of the institution.[21] Internal audits must not be involved in process of internal control by managers, which they need to assess and judge. It would be rather positive if the internal auditor is asked to provide an opinion, or to perform a pre-audit, on systems and procedures to be prepared for a program or new operation within the organization. Nevertheless, internal audit cannot be part or collaborator of internal control.

It is very important for the internal auditor to keep proper distance, for the organization's managers to recognize their responsibility for internal control, and be interested in presenting efficient control with their own means.

The link between internal and external audits may be rather tense, if the external audit is viewed only as an oversight body and evaluator of internal audits. Even if the external auditor finds rooms for improvement in performance of internal audit, or even if the external auditor is tasked with an audit of the whole performance of the internal auditor, that should not interrupt their cooperation. There may be exchanges of views, experiences and information on methodologies, and much time and many resources can be saved if both parties enjoy confidence of the other, and plan their performance depending on each other. This may well be done without causing any confusion of the nature of work and special objectives of each audit process.

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20 Nikolla Dhimiter, Karapici Vjollca and Peta Etleva. Audits (Audtimi). pgs. 58-59, Tirana, 2003

21 Source: International Audit Standards, International Organization of Supreme Audit Institutions, www.intosai.org

It is allowed to keep control of movement of funds, procedures for an efficient accountingm, and compliance of expenditure with funds allocated or requested.[22] As stated above, it is clear that auditors and managers have clear and special roles. The auditor is responsible for formulating and expressing an opinion on financial statements, while on the other hand, the management is responsible for compiling and presenting financial statements, while the fact that financial statements are audited does not relieve the management from responsibility.

Final conclusions and recommendations

Budget processes, such as drafting, approval and implementation of budget, require transparency and accountability, which is considered to be a principle of institutions of the whole democratic world. The objective of budget control is to ensure realization of budget in full compliance with the Assembly law.

Establishment of an internal financial control system is aimed at preventing irregularities in spending public funds, which must be a priority for the Governments of countries in transition, and an important criterion for the efforts of all these countries in terms of accession of the European Union.

Public finance control must ensure that public funds are managed in compliance with legal acts, international standards, and that public funds are safe, properly accounted, and used in compliance with the goals and objectives, in an economic, efficient and effective manner.

In researching and analysing all external audit reports published in Kosovo since 2004 -2009, I have seen that:

In Kosovo, although it is provided that all institutions should have control and should establish internal audit departments, it is important to underline that some of these institutions do not have fully operational internal audit bodies. The Office of the General Auditor, in its audits made in the last years, has found the existence of long-term deficiencies in budget organizations, and that internal control over procurement have left procurement funds of budget organizations rather exposed to fraud, losses and abuse.

Budget organizations have not shown any sustainable leadership, which is required for the elimination of weaknesses. Our institutions have failed in clearly establishing accountable management, responsible for improving weaknesses in procurement and public finance management. The public procurement system has not established any mechanism to help ensuring that government organizations undertake their activities with qualified economic operators, which is a serious deficiency.

22 Public Expenditure Management (Menaxhimi i shpenzimeve publike) pg. 145. Tirana, 2004. Ministry of Finance and GTZ

In a way of conclusion of this paper or analysis, I would state that:

• Despite the existence of internal auditors, Kosovo's institutions have not reached any proper outcome, it either does not function properly, or advice of internal auditors are not considered by management of institutions or organizations in terms of improving management of public funds.

• Since outcomes reached by internal auditors are poor, it would be better (I recommend) to established a centralized unit, like a General Finance Inspectorate, similar to some countries of the EU.

• The Unit – the General Finance Inspectorate, must enjoy independence in operations, in reporting directly to the Minister of Finance, and not lower levels, such as the permanent secretary, as has happened so far, since every year, in ministries and other institutions, we have had cases of mismanagement of public funds.

• Our institutions have not established an effective mechanism of accountability for public officials of procurement, for them to be held accountable for their actions, and specifically for violations of procurement laws, in which they fail to comply to rules of bidding for purchases of goods or services (tendering).

• Failure to perform on responsibilities in many of our institutions has led to a poor control on procurement, and poor management of public funds, therefore, a more stringent internal control is required.

• The internal control system in Kosovo is poor, especially in terms of purchase orders, receipts, limits of phone use, depreciation of assets, unreported liabilities, etc., therefore, a more efficient control is required in these procedures.

• As a country in transition, Kosovo must give more attention to strengthening internal public finance control systems, so as to ensure operations of such systems similarly to many EU countries.

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