



# *The importance of public funds, their management issues*

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## **Abstract**

In our country, we already encounter with the phenomenon of mismanagement of public funds. This is a more acute problem, as directly affecting the state budget.

This paper will try to show the way public funds are managed by public institutions in Albania, cases of abuse and how to improve the process of their use. This fact because there is a tendency for the abuse of public funds and the abuse reaches substantial monetary value. The audit reports of the High State Control for the period 2005 to 2010 are taken into consideration to set this paper.

Through this paper we aim to give the reasons for the improvement of public funds use, the increase of managers' responsibility in the use of public funds, and some future alternatives and innovations, which the public sector will face in the future due to rapid technological development and crises that may arise in the future.

*Key words:* Audit, public revenues, public expenditures, technological development, the public sector.

# 1 Introduction

Public funds play an important role in the development of a country and for this reason it has been given a great attention by many researchers. This is justified by the fact that public funds are part of a great many financial instruments and cash. In Albania, a great interest has been given to public funds after the '90-s, period when the system of governance changed and the economic system as well. From this period until now, a lot of important changes in public funds management have been made, aiming at a better use of them and a minimization of their abuse.

In this paper we will try to evidence the grounds of misuse of public funds, the difficulties faced by public administration employees in understanding and managing risk to public funds.

The notion of public funds is very broad, including that of expenditure on salaries, social insurance for employees of public administration, operating expenses, pension funds, public investment, etc. and public revenue.

In this study we are trying to take into survey some elements of public expenditure. Also it is worth mentioning the fact that no survey is being taken in the creation, collection and administration of public revenues. It is a case that needs a special paper due to the nature and the wider problematic. In this study we have not taken all the voices that make up public spending, but only a part of them, it is because of the wide scope of these elements and inability to be summarized in a single paper. It remains the task on our part to be taken in future study in the works.

In this group of large public funds, normally there is a place for their misuse. Abuse of public funds can be caused for many reasons, such as: the idea that the funds belong to state and abuse affects only state coffers and not the individual, the idea that responsibility is lower in the case of abuse of public funds compared with private funds, the fact that until now there has not been heavy penalties due to abuse of public funds, a poor management of public funds by responsible persons, etc.. All these reasons have made to reinforce the idea that the abuse of public funds is an action easier and less punishable in the public sector.

## 2 Public funds and their importance

Public funds are a growing group of instruments in the hands of the public sector, which are used to achieve the goals and objectives relevant to this sector. Through these funds, the public sector makes possible the existence and continuation of its activity. More specifically, public funds are all monetary assets, which are collected, received, maintained, distributed and spent by public sector entities that consist of revenues, expenditures, loans and grants for public sector entities.

It can not be thought that a state is not able to create income and to perform public

expenses, because in this case we could not speak about a state anymore. Public funds are of a great importance, so great should be the importance of their management too.

Financial management and the control of public funds implies a system of policies, procedures, activities and controls, which are placed, maintained and updated regularly by the director of each public entity and implemented by all staff . The reason is simple: to address risks and to provide warranty enough that the unit objectives will be achieved through its public;

1. In compliance with legislation and internal acts of contracts;
2. Operational, reliable and complete financial information;
3. Effective, efficient and economic activities, and
4. Protecting information and assets.

Public funds should be used according to the legislation of each country, because only in this way it will be possible, to avoid abuse firstly and secondly their effective use. Losses states that suffer from public funds abuse occupy a considerable percentage of their budgets, so for example in Albania report economic damages / GDP. This is shown in Table 1.

TABLE 12.1 — (Source: Data were collected by the control statements for the years 2005 - 2010 by the State Supreme Audit)

Year	2005	2006	2007	2008	2009	2010
<b>Economic damage /GDP</b>	0.041%	0.046%	0.047%	0.025%	0.025%	0.011%

Given the difficult economic period in which we are experiencing, these losses arising from public funds abuse are the most serious, because in this time of crisis a single penny must be used effectively and it has to be avoided as much abuse, as it is possible.

### 3 Managing the risk of public funds

During the usage of public funds we encounter the meaning of risk associated with these funds. It is a very significant element of time during their use. In its general sense, risk is the probability of occurrence of a certain event, which will affect the achievement of the objectives of public entity. Risk management related to public funds includes identification, evaluation and control over those events or situations likely to have detrimental effect on meeting the objectives of the public entities and is made to give reasonable assurance that these objectives will be realized. Risk will be measured according to its effects and the degree of situation probability. The persons responsible for public entities record and report the measures taken to prevent fraud and irregularities and to minimize risk.

But, understanding risk and its management it is not an easy think, because in most public institutions in Albania risk and its management is understood with difficulty or not at all understood by the employees of these institutions. To manage and to keep risk under control, to avoid abuse of public funds, managers of public institutions have to plan and to make periodic checks of any case. These controls should ensure that risks associated with public funds are within acceptable limits, determined during the risk management process. We must not forget the fact that the cost of performing the control activity should not in any case exceed the expected benefits. These checks must be directed toward such procedures;

- a. system of two firms, which allows no financial commitment made without the signatures of the authorizing person and the person administering to a public entity,
- b. the system of two firms, which prevents the payment to be made without the signatures of the authorizing officer and civil enforcement unit, or their employees to act on;
- c. separation of duties in the field of the authorization so that the same employee shall not be liable at the same time for the proposal, adoption, implementation, accounting and control process,
- d. accounting procedures for complete, accurate, fair and timely to all transactions
- e. regulations of documentation of all transactions and activities related to the performance of the unit;
- f. rules for ensuring the preservation of information and assets of the unit.

## 4 Problems concerning the use of public funds

In the above cases we tried to explain in a summary the meaning of public funds and risk management. An important task of this paper is the identification of problems related to the use of public funds. Problems arise in different ways, for example, problems related to salaries and remuneration, with operating costs, investments, with taxes collection, public procurement, etc... In this paper we are focused mainly on issues identified by the State Supreme Audit in Albanian Republic for the period 2005 to 2010. During the work carried out by this institution, there were evidenced a great number of abuses of public funds by public institutions.

One of the main problems that occur mainly and repeatedly in all public institutions is the abuse of funds, salaries and bonuses. This kind of problem has always been a constant problem more serious at public institutions. During the period 2005 - 2010, abuse of funds salaries and bonuses is presented in Table 12.2.

TABLE 12.2 — *Economic damage in “wages and benefits” (in thousand LEK). Source: Data were collected by the control statements for the years 2005-2010 by the State Supreme Audit.*

Year	2005	2006	2007	2008	2009	2010
<b>Wages and benefits</b>	39.770	77.405	6.476	3.720	10.222	348.9

TABLE 12.3 — *Economic damage in “wages and benefits” (in USD). Source: Data were collected by the control statements for the years 2005 - 2010 by the State Supreme Audit*

Year	2005	2006	2007	2008	2009	2010
<b>Wages and benefits</b>	383,954	822,233	78,128	42,316	106,690	3,355

According to the above table, we see that every year there has been funds abuse in salaries and bonuses, despite repeated inspections that are made to institutions for disciplining the use of these funds. Management and control have to be better in order to eliminate the abuses of these funds.

#### 4.1 Problems associated with planning funds

One of the many problems is the incorrect planning of funds which are used by public institutions. It is now a practice performed by the public institutions to plan much more funds than their actual needs. This is obvious in a comparison between the planned funds and those realized during a one year period. Table 4, highlights the non accurate planning of funds, resulting in the end of each year a considerable amount of unrealized funds.

This defect in planning has consequences in the state budget, which is trying to plan more funds, setting in motion the respective governmental structure in order to ensure these funds while the public institutions needs are less. During the year 2005 there has not been a full realization of 16.637 million LEK or 160.6 million USD, in 2006 no realization of 9.192 million LEK or 97.6 million USD, in 2007 no realization of 19.353 million LEK or 233.5 million USD, in 2008 no realization of 5.740 million LEK or 65.3 million USD, in 2009 no realization of 21.649 million LEK or 225.9 million USD and in 2010 no realization of 9.016 million LEK or 86.7 million USD. Naturally, arises the below question “Why is this situation from year to year?” We think that the problem begins at the stage of the implementation of the planning procedures and the approval procedures in the sector of economics, whose financing occupies a considerable weight in the total capital investment of the state budget, where it was found that the central responsible institutions have not applied the criteria of prioritization of investment’s allocation and details. It is also concluded that the financing of the investments it is not made in the project level in the value of investment costs, but the breakdown and the allocation are carried out partially and in small values, leading to the dismemberment of funds, leading also to the extension

of facilities in several budget years, actions that have reflected in the decrease of the level of competition, as well as the inefficient use of these funds.

TABLE 12.4 — *The non accurate planning of funds (in million LEK). Source: The data were received by the control statements for the years 2005 – 2010 by the State Supreme Audit.*

Designation	2005		2006		2007		2008		2009		2010	
	Difference	%	Difference	%	Difference	%	Difference	%	Difference	%	Difference	%
<b>Total costs</b>	(16,637)	6.7	(9,192)	3.4	(19,353)	6.3	(5,740)	1.6	(21,649)	5.4	(9,016)	2.4

TABLE 12.5 — *The non accurate planning of funds (in million USD). Source: The data were received by the control statements for the years 2005 – 2010 by the State Supreme Audit.*

Designation	2005		2006		2007		2008		2009		2010	
	Difference	%	Difference	%	Difference	%	Difference	%	Difference	%	Difference	%
<b>Total costs</b>	(160.6)		(97.6)		(233.5)		(65.3)		(225.9)		(86.7)	

## 4.2 Implementation of legality

Another fundamental problem is the incomplete implementation of legality of the use of public funds. It is known that the use of these funds is based in the laws of each state, in a way that these funds are used effectively and efficiently, and to avoid the abuse and their misuse as much as possible. During the period of the study was observed that not always the use of the funds by public institutions is based on the relevant legislation, this due to many factors, and as the most important can be mentioned (1) the complete ignorance of the legislation from the persons responsible for the use of funds (2) avoiding the implementation of the legislation in order to obtain illegally public funds. If we can refer to the procurement process during the period of the study 2005 - 2010, it was noted that there were numerous problems that have caused economic damages according to the Table 6.

TABLE 12.6 — *Economic damages during the procurement process (in thousand LEK). Source: The data were received by the control statements for the years 2005–2010 by the State Supreme Audit.*

Year	2005	2006	2007	2008	2009	2010
<b>Procurement</b>	245,136	54,402	384,889	165,680	37,001	36,165

TABLE 12.7 — *Economic damages during the procurement process (in thousand USD).*  
 Source: *The data were received by the control statements for the years 2005–2010 by the State Supreme Audit.*

Year	2005	2006	2007	2008	2009	2010
<b>Procurement</b>	2,366.6	577.9	4,643.3	1,884.6	386.2	347.7

Table 8, presents the cases of legal violations during the procurement procedures of the period of the study. As shown on Table 5, the biggest violations are noticed during the draft of the documentations of the bid as well as during the procurement procedures. We cannot say exactly which is the tendency of the violations during the years, increase or decrease, because the tendency of legal violations despite the controls and the measures which were taken have been fluctuated, e.g. the legal violations in the phase of procurement procedures tended to decline in 2008, specifically 18 %, and in 2009 there was a 30% increase reaching 42 % in 2010.

TABLE 12.8 — *Violation identified during the procurement process.* Source: *The data were received by the control statements for the years 2005 – 2010 by the State Supreme Audit.*

Type of the abuse	2005	2006	2007	2008	2009	2010
Draft of the bid documents	37%	19%	50%	44%	54%	54%
The process of the procurement procedure	50%	58%	35%	19%	30%	42%
Contract implementation	8%	23%	15%	37%	16%	4%
Documentation and archiving of documents	5%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

## 5 Conclusions and recommendations

From this work emerged the gaps that do exist in the management of public funds, resulting in economic losses with considerable values. We may say that there is a tendency of the major part of public administration to abuse with public funds, abuse which may be deliberately or as a result of not knowing exactly the respective legislation. This abuse with public funds has caused considerable damages to the state budget, so during the period 2005 -2010 on the basis of controls carried out in most ministries and other public institutions results that there has been a economic loss of 137.942 thousand LEK or 1,437 thousand USD in salaries and bonuses, and in procurement the loss reached 923.273 thousand LEK or 10,206 thousand USD. Also, it is worth mentioning the fact that there is no special importance toward the planning process, resulting in greater planning for public funds than there are actually consumed, and especially during the period 2005 -2010 there was a non – accurate

planning of the funds in the total value of the 81.857 million LEK or 869.7 million USD. Thus, the state has provided 81,587 million LEK or 869.7 million USD, possibly through debt, but this amount was not used from the public institutions, which had been planned as necessarily funds during the planning process, increasing in this way the inefficiency of the use of public funds.

In conclusion, we can say that:

1. From the public administration employees, who use public funds, it should be given a greater caution in the management of these public funds.
2. It should be understood precisely the notion of risk in the management of public funds.
3. It should be given the exact importance and commitment the planning process of public funds.
4. It should be taken harsh measures against employees that abuse and misuse public funds.
5. It should strengthen the internal audit system in public institutions.
6. There should be rigorous request in the application of the legislation in the use of public funds.
7. There should be viewed the possibilities for further improvement of the legislation on the use of public funds.

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