

EFFECTIVE MANAGEMENT OF PUBLIC FINANCES - OVERVIEW OF HIGHER EDUCATION INSTITUTIONS IN SERBIA

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Abstract: The research examines the essential approaches to the concept of management responsibility in public administration, which implies the true commitment of managers and employees to use public funds in the correct way in their daily work. Through a theoretical analysis of the relevant literature and key drivers of reforms and an empirical assessment of the quality of the established system of financial management and control through the Consolidated Annual Report on the State of Internal Financial Control in the Public Sector, the goal work is to point out that there are significant needs to improve management in institutions of higher education in Serbia, based on report the findings and recommendations of the state audit institution. The framework of public policies for higher education in Serbia in the context of higher education reforms does not only refer to their basic activity, but also integrity, transparency and responsibility in the management of the funds at their disposal, performance-based financing and quality assurance, which contributes to the effective functioning of the market and economic growing. Modest progress in this sense indicates that these institutions have not fully established the basis for good governance. The findings of the research sample are the higher education institutions that were subject to the control of the state audit institution in the previous two years, and through the analysis, the authors of this work include recommendations of audit related on management responsibility in relation to the integrative components of financial management and control. The concluding considerations point to a fundamental misunderstanding of the holders of management functions of the purpose and role of internal control mechanisms in the management system, which is a prerequisite both for the implementation of legal regulations and for effective business operations.

Keywords: management responsibility, public finances, public policies, state audit, internal control

JEL Classification: L38, M14, O22, P43

1. INTRODUCTION

The concept of management responsibility in the management of public finances requires the users of public funds to set clearly defined goals and responsibility for work within the framework of delegated competences within which the responsibility of managers is focused on performance, and not only on compliance with regulations. In the Republic of Serbia, the legal aspect of managerial responsibility originates from the concept of Internal Financial Control in the public sector, which was introduced into the legal framework through the Law on the Budget System (Tojnisen & Deker, 2022). The prerequisites for the successful establishment of effective internal financial control, and thus the concept of managerial responsibility, which is the subject of analysis in this paper, are compliance with regulations, structural reforms of public financial management and budget reforms. Considering the systemic approach in the article we start from theoretical considerations that show good practices and the way in which the concept of management responsibility is implemented in the European Union, but also as an added value of a modern management system. In the very review of the concept of management, we consider the continuous effect of management actions which by influencing the parameters of the system, translate the system from one state to another. In the context of efficient management of public resources through the audit findings, we consider the selection and implementation of management actions that in higher education institutions in Serbia that were the subjects of the audit translate the business system from the existing to a new state. Achieving the set goals, that is, the realization and development of the system and the functioning of the system, must be directed, which is the management of system. This implies that the management of the institution should have experts in the fields of law, finance, economics and management, who are sufficiently experienced in performing entrusted responsibilities. The number of irregularities in the integrative components of financial management and control and acting on audit recommendations indicates the degree of stochasticity of the management process, which, depending on the actions taken, decreases and establishes a certain determinism, i.e. adequate management. Management responsibility implies that the concepts of responsibility, authority and competence are interconnected, so it is precisely through the relationship of their interdependence, overviewed on the

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basis of the report of the state audit institution in the business of higher education institutions, consider all results through all aspects of management from planning to reporting, and from delegation to control.

2. THEORETICAL FRAMEWORK

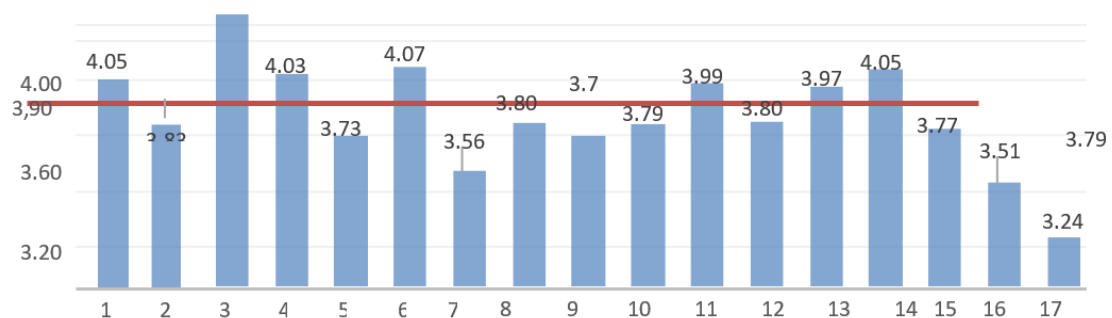
The concept of management responsibility of users of public funds is a prerequisite for the establishment of the Internal Financial Control System and is often considered a key issue in reform processes and during the dialogue with the European Commission. There is no unified definition of management responsibility that could be applied to all situations and to all users of public funds. Theories that are important for the development of managerial responsibility represent a set of different disciplines such as finance, accounting, law, human resource management, quality and risk management, organizational behavior and others. It refers to all processes related to decision-making, that is, the appropriate organization, procedures and reporting on the results of the organization (CUH, 2023). In its explanations of internal control mechanisms in the public sector, the European Commission gives its definition of management responsibility precisely to clarify the duties of managers, their obligations and responsibilities in terms of regulation, but also efficient business operations (European Commission, 2012). All members of the European Union, through reform processes in their public administrations, have been considering aspects of good governance for decades and approached these processes in different ways. The general approach to reforms was intensified during the 1990s, where the focus was on the principles of good management, and areas related to internal controls were intensified since 2000. This could be explained by the recognition of the importance of the principles of good management, the importance of control mechanisms, and in this sense the recognition the need for risk management but also by the introduction of quality management mechanisms in public administration. In this period, the implementation of internal control mechanisms through business processes in public administration organizations is becoming widely used and of vital importance among the most important users of public funds in many European Union countries. The reform processes in the last 15 years in public administrations in the majority of 28 public administrations have experienced fundamental changes (this especially applies to France, the Netherlands and the UK), and in particular it refers to the component of the control environment (SIGMA, 2004). All member states give their observations, so in the Spanish contribution on progress in reform processes it is stated that the importance of control mechanisms should not be considered separately in the economy in relation to the public sector, especially when we look at it in the context of change management, which is becoming inevitable in today's changing environment. (Chaparro et.al, 2006). In this context, it is important to note that the way in which internal controls function and the way of their implementation is constantly being improved. The development and improvement of controls primarily refers to their focus on goals and performance management. This means clearly defining goals in all business segments and implementing controls wherever there is a risk of goal achievement or partial achievement, including the responsibility of managers in relation to the efficiency and quality of public service provision, cost efficiency and reporting responsibility. All this implies the introduction of quality standards, international and national standards of accounting and auditing, clearly defined legal regulations and clearly defined role of internal and external audit. users of public funds (Maksimović et.al, 2023). In the higher education institutions in Serbia, which are the subject of the research of this article, there is not a sufficient essential understanding of the purpose of internal control mechanisms, and the conditions for effective management responsibility, which requires a stimulating legal framework, an ethical environment, an inspiring "tone at the top" and a focus on business processes, that mostly have not been created (Maksimović, 2003). In accordance with the traditional way of management, the focus of management and control is most often on monitoring the execution of the budget and spending of financial resources, as well as compliance with legal requirements (SVOS, 2023). There is no focus on business processes or an organizational culture focused on efficiency and effectiveness, achieving goals in budgeting according to performance (EACEA, 2017). Within the framework of the reform processes of public administration in Serbia, in the process of EU accession, all institutions are required to use a modern way of management, which implies the establishment of a plan or road map for the goals that need to be achieved, determining the means for the implementation of the plan in accordance with the stipulated deadlines, as well as determining what was actually achieved in comparison with the originally planned, determination of deviations and reasons for deviations, as well as their inclusion in the original plans and decisions on allocation of funds (Hepworth, 2009). Management bears responsibility, which requires transparency. Accountability depends on the clarity and comprehensibility of the reporting, as well as the capacity of the employees to whom the information is submitted for review, consideration and challenge (ReSPA, 2018). Public policies in the field of higher education in Serbia imply certain

organizational changes, but do not consider significant management changes (SROSRS, 2021). The framework of public policies in reform processes recognizes in its priorities the orientation towards results in the business of higher education institutions, transparency and availability of data, quality assurance, ethical codes, the importance of accurate determination of costs and the importance of non-financial reporting (WB, 2022). The questions which arise in the context of management responsibility in institutions of higher education in Serbia are numerous, first of all these are questions in terms of their effective and efficient business according to the result, also the role of internal control in the management system, which is a prerequisite for the implementation of legal regulations. On the other hand, limitations are imposed in the context of the institutional autonomy of these institutions and the supervision of their operations.

3. RESEARCH CONTEXT

Directly related to management responsibility is the better performance of the users of public funds. Within the framework of the reform processes of public administration in Serbia, it is precisely the increase in performance that is of essential importance. It is necessary to approach the concept of managerial responsibility in the correct way, and not only in the sense of holding managers accountable for the achievement of set goals. In our article, we are looking for answers to the questions of how to achieve positive results and achieve efficiency, effectiveness and legal business in accordance with the regulations in the context of a proper approach to management, which implies, in addition to better performance, greater participation and involvement of employees, greater commitment and motivation, an increased sense of competence, a greater degree creativity, established communication in the management of unforeseen events, which corresponds to adequate proceeding in all integrative elements of financial management and control. Positive results are achieved when employees perceive the concept of responsibility as a useful and advanced way of assigning and fulfilling work duties. For example, managers who involve employees in the process of defining goals and expectations will notice that employees have a clearer picture of what is expected of them and have greater confidence in their ability to achieve those expectations, and in general, perform at a higher level (CUH, 2023). The concept of management responsibility primarily implies a focus on internal financial control procedures aimed at improving management in accordance with international standards (COSO, 2013) and good EU practices. By looking at the quality of the established system of financial management and control according to the last annual consolidated report of the central unit for harmonization of the Ministry of Finance of the Republic of Serbia, users of public funds rated the level of application of the KOSO principle with an average of 3.9, which indicates that there is room for its improvement, but they are prioritized users rated with 4.15 the established level of the system (CUH, 2023). There is room for improvement, especially when it comes to indirect budget users, which includes institutions of higher education that are the subjects of observation in this paper.

Graph 1. Average grades of the COSO principle, Source (CUH, 2023)



Source: (CUH, 2023)

The main intention of this article is the analysis of audit reports in institutions of higher education in order to identify irregularities in the integrative areas of financial management and control and to respond to audit recommendations, because in this segment the leadership role of the top management is key, who is expected to throughout the organization, but also externally, communicates a clear message about behavioral standards and the importance of the FUK "tone at the top" of system (Maksimović et.al, 2023). The presented results include audit control reports at four state universities, 27 faculties, 3 colleges and colleges of vocational studies, 7 academies of vocational studies and one academy of (Pejović,

2023). In the report of the state audit institution, which was presented at a conference in the rectorate of the University of Belgrade, it was pointed out that there is an inadequate and incompletely established system of financial management and control in all observed entities, which results in identified errors and irregularities. (Pejović, 2023). It were given 762 recommendations by accounting areas, of which 172 recommendations related to the area of financial management and control (Pejović, 2023). The most critical area is in the area of established control activities, where as many as 81 recommendations were given. We have to notice that the management of higher education institutions does not understand the essence and importance of establishing control mechanisms as well as their implementation through processes, even when defining them (Pejović, 2023). The average rating of this element in the annual consolidated report of the Central Unit for Harmonization of the Ministry of Finance of the Republic of Serbia is something better, which we presented in the previous graph, than at the higher education institutions that were the subject of audit, which indicates that the priority users of public funds are aware of the importance of control activities in their organizations (CUH, 2023). The concept of managerial responsibility also implies adequately established control activities, especially for the reason that they are carried out throughout the organization, at all levels and functions and by all employees, in accordance with the established business processes and job description. With their help, it is known who is doing what, who is in charge of a certain activity/process, and who is responsible. The control activities are of crucial importance for business efficiency, but also for the continuity and economy of the way work is done. Also, represent a number of different activities in the organization, such as approvals, authorizations, verifications, reconciliations, reviews of operational success (performance), asset security and division of duties. In the context of this article's research of managerial responsibilities at higher education institutions would imply assuming responsibility for all aspects of management, from planning to reporting, and from delegation to control.

4. DISCUSSION OF RESULTS

Experiences in the application of managerial responsibility among users of public funds in Serbia are recent, but they are one of the priorities within the reform processes of public administration. Institutions of higher education in that context are particularly specific, due to their autonomy, so the question arises as to how much supervision higher education institutions need to fulfill social expectations on the one hand. The other aspect is in terms of their efficiency, modernization and operations in accordance with the laws, so it is necessary that management structures of these institutions clearly understand their role and responsibility. In the narrative report of the state audit institution in the concluding remarks, it is stated that the institutions of higher education that were the subject of the audit did not organizationally establish an adequate FUK system because they did not implement all activities and did not adopt/ update the basic documents for establishing the system (Pejović, 2023). It is also stated that they did not align the financial management and control - FMC system with the principles of the "COSO" framework, which ensures a positive control environment, good risk management, control activities that will reduce risks to an acceptable level, necessary information and communications in the field of internal controls, as well as monitoring and evaluation of the FMC system, which creates a risk that goals and objectives will not be achieved in a proper, economic, efficient and effective manner (Pejović, 2023). For the aforementioned improvements, the improvement of administrative capacities is necessary, and the managers of these institutions should have unique abilities and experts in the fields of law, finance, economics and management, who are sufficiently experienced in performing entrusted tasks. Such experts must also clearly understand their roles and responsibilities as civil servants in relation to state enterprises. In addition, the highest management should also be able to have the resources to receive advisory services from the outside, in order to operate as efficiently as possible. They could, for example, engage specialist evaluations, active monitoring, or external auditors when deemed necessary and appropriate. In the context of management responsibility, the key leadership role of top management. It is necessary that managers, by their own example, i.e. their activities and responsible behavior in general (commitment to respecting moral principles, communication, management, determining organization's resources to implement internal controls in terms of additional training) encourage the creation of an appropriate organizational culture and a generally favorable environment for the development of the financial management and control system and achieving the overall goals of the organization. In addition, it is necessary to organize the legislative framework at the state level, i.e. regulatory compliance, planning and performance control systems, good communication with the founder/competent ministries, quality management structure, financial discipline and financial and non-financial reporting. In the part of management and leadership, it is important to point out that faculties have discretion in the use of their own income, but that the absence of clear criteria for

acquiring their own income causes them to be spent without criteria, because higher education institutions have not determined the way of their distribution. In addition, higher education institutions did not apply criteria when determining tuition fees and administrative fees, which make up the largest part of their own income. The structure of school fees is not transparent, and the largest part of the institution's own income is spent on salary increases for its employees (Pejović, 2023). From all of the above, we can conclude that in accordance with the goals of structural reforms at higher education institutions, it is necessary to improve the situation in management and leadership, as well as in business control. Internal auditing has not been introduced at any higher education institution, but if necessary, they hire an internal auditor from the competent ministry. In the context of improving management responsibility, the internal acts of the faculty established transparent procedures for the selection of deans and management bodies, their competences and responsibilities are clearly defined within the current business, but for the improvement of management, also it is necessary to systematically arrange public policies in this area. An effective driver can be a policy – supported by related implementation strategies – that actually delivers better results in the system. Effective drivers generate a concerted, accelerating force for progress toward reform goals. They can be internal, which includes efforts to achieve set goals, or external, such as compliance with laws, in any case, an effective driver is one that achieves better measurable results.

5. CONCLUSION

The modern way of managerial of public funds requires that the management process be viewed in a broader sense, which means that the focus of management is not on monitoring the execution of the budget and spending of financial resources, as well as compliance with legal requirements, the attention is paid to the achievement of goals and performance standards and, consequently efficiency and effectiveness in spending public financial resources. An important component of management responsibility is the adequate establishment of control mechanisms in terms of internal control mechanisms (procedures and structure) that are needed to ensure that organizations comply with the law (financial management and control, internal audit) and external mechanisms (state audit, budget inspection, audit financial statements by external auditors). The importance of internal controls in the context of managerial responsibility implies the establishment of good administrative procedures, the provision of financial resources for work, the monitoring of the disposal of funds and the management of income, expenses, assets and liabilities. Rukovodstvo mora da zna da li je raspolaganje sredstvima bilo dobro. Management must know whether the disposal of funds has been good. Therefore, the management must carry out an evaluation and analysis of the expenditure in comparison with the services rendered and the public interest achieved. The monitoring process takes place throughout the year, while the evaluation is carried out at the end of the financial year. In order to establish the concept of managerial responsibility, institutions of higher education should change the current way of management. This requires the existence of responsibility for work within the framework of clearly assigned, that is, delegated competences within which the responsibility of managers is focused on performance, and not only on compliance with regulations. Performance expectations must be clearly linked and aligned with capacities, and control activities should also be established in cases where performance expectations have not been met. For effective management are important the management principles of responsibilities and stimulating legal framework, ethical environment, focus on processes, awareness and motivation of managers. The findings of the audit indicate that institutions of higher education in Serbia should undertake numerous activities in order to establish adequate internal control mechanisms and improve the concept of managerial responsibility in order to operate more efficiently. This requires, first of all, increasing professionalism in work, defining clear strategies and goals, developing clear performance indicators, establishing policies for evaluating the work of employees, improving reporting and, above all, strengthening the control environment. In this article, the authors want to highlight the importance of managerial responsibility in the context of achieving better business results, although it is a recent topic and not sufficiently applied in higher education institutions that are the subject of this paper's research. We believe that the concrete benefits of the principle of management responsibility, which we highlighted in the paper, will be good initiators of reforms, which will ensure their further development and improvement of the application of this concept in practice.

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