



Support for Improvement in Governance and Management
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Second Regional Conference on Public Internal Financial Control

**Wednesday 21 September
14.00 – 17.15 hrs**

Pilot Project Financial Management and Control Albania 2011-2013.

Background

Financial management and control (FMC) is in practice very difficult to implement because if it is to be successful it requires a significant change in management arrangements. With financial management arrangements, management has to be responsible for the delivery of services efficiently and effectively, to meet defined objectives, to agreed performance standards and to time. Management has to then be accountable for whether it has been successful or not. Effective managerial accountability also relies on the application of the COSO (Intosai) internal control standards. These standards cannot be effective without proper arrangements for managerial accountability being established. Indeed, a basic assumption lying behind the COSO standards is that managerial accountability exists.

All of this represents a major reform in how public services are administered in many countries and impacts upon the central controls exercised by the Ministry of Finance, by the Treasury and sometimes by other central organisations. It also affects as well how line ministries and other line organisations themselves organise the arrangements for

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the delivery of services and the extent to which managerial accountability arrangements actually exist within line organisations.

The usual arrangement for introducing FMC as part of the Chapter 32 arrangements is to write the requirements for FMC into the relevant legislation and to then conduct seminars and other training to encourage line organisations to introduce FMC. These trainings tend to focus on 'control' rather than on 'financial management'. So the benefits (which should accrue to both the Ministry of Finance and the line organisations) are very limited.

In Albania, a decision has been made to take a rather different approach to introducing FMC. Yes, there will still be written legislative requirements and 'yes' there will still be seminars and other training. But in **addition a pilot organisation has been selected to test out the full implications of adopting FMC** with the resulting relaxation of central controls and the devolution of much more authority to individual managers. Sigma has been involved in the preparation of the -pilot project.

Pilot project

The programme of work for this pilot project is envisaged to have **three main stages**. The **first stage is preparation of the pre-study report** which is scheduled for completion by the end of September 2011. In the period from early October 2011 until the 31st December (**stage two**) **further preparatory work** will be undertaken by the CHU and the pilot organisation. During this stage the specifications defined in the pre-study report (the terms of reference of the actual pilot study) will be reviewed by the funding organisations and the Steering Committee of the project.

The third stage is the implementation process which will require the support of a foreign expert partner who will work with the selected pilot organisation. This stage of the project will commence on 1st January 2012 and will run until 31st March 2013. Ideally the partner Institution will be able to participate also in stage two.

The **pre-study is conducted** primarily by way of interview first to select a possible pilot organisation and secondly to then establish the management changes and support that the pilot organisation would require in order to implement FMC.

The **selected pilot organisation is a newly established** agency (formally established on the 1st July 2011), the **Albanian Roads Authority (ARA)**.

The ARA is responsible for the construction of new major roads and for the maintenance of those roads. It also has responsibility for traffic signalling arrangements on those roads. The agency is a second level organisation of the Ministry of Public Works and Transport (MPWT).

During the research conducted as part of the pre-study, **it emerged that applying the principles of FMC could immediately identify areas where benefits could be shown** as possibly available provided appropriate management action was taken. These benefits apply to both the pilot organisation itself, the MPWT and to the Ministry of Finance. The key findings from the pre-study indicate the tight linkage between the introduction

of FMC and managerial reform and they demonstrate that the effective introduction of FMC depends upon how far managerial accountability in any meaningful way can become established. This represents a change to the way in which public services are administered in Albania and therefore how appropriate it is to develop a pilot study to both test these findings and to then show how those findings can be more effectively implemented in practice.

Objectives Pilot Project

The **fundamental and overall purpose** of this pilot is that the lessons learned from it can be applied to other organisations as part of the wider FMC roll out in Albania. An aim of SIGMA is that this model could then be used as an example that could be followed by other countries in a similar position to Albania.

The **specific purpose** of the pilot project is defined, as, to explore the managerial changes that are required to ensure that FMC can be effectively implemented and the information and other requirements that managers have to enable them to deliver services more efficiently and effectively than under traditional arrangements. The pilot will also aim to identify in practice and deliver at least some of the benefits that are expected to flow.

The **immediate objective** of the pilot project is to learn practical lessons in the Albanian context about what the application of FMC actually means for the administration of public services which in turn will enable a more effective implementation of FMC in other organisations. Not the least of these lessons will be how managerial arrangements should be changed in order to ensure that objectives can be delivered efficiently and effectively. The CHU/FMC could use the practical experiences arising from the pilot for their training.

This in turn will allow the Ministry of Finance to be more certain that the resources allocated through the budget are being used for the purposes intended in the most efficient and effective manner.

The arrangements proposed also have the advantage of providing the Ministry of Finance with a much better understanding of what organisations are expected to do, the objectives and performance standards they are expected to achieve and the standards that they are expected to employ.
