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**FINANCIAL MANAGEMENT AND CONTROL AND FISCAL
RESPONSIBILITY OF BUDGET USERS IN THE FIELD OF PUBLIC
PROCUREMENT**

**FINANCIJSKO UPRAVLJANJE I KONTROLE I FISKALNA
ODGOVORNOST PRORAČUNSKIH KORISNIKA U PODRUČJU JAVNE
NABAVE**

ABSTRACT

The Fiscal Responsibility Act introduced accountability, transparency and stability at all levels of business monitoring. The emphasis is placed on the introduction to control in the budget execution process. Well-established system of financial management and control, which had a long-term effect of good financial management, is also one of the elements of its connectivity with fiscal responsibility. Internal procedures in the field of planning, budget execution, public procurement area, accounting and reporting area represent an efficient coordination of financial management and control in order to ensure fiscal responsibility.

Business processes that occur within the institutions / facilities of budget users in the health system, education system and social contributions and benefits are an integral part of the financial management and control. The same is required successful to define and incorporate and describe as internal controls in order to improve the activity of a specific business process. For the needs of undisturbed operation of almost all business processes an important role has public procurement process as a component that provides a more efficient realization of the financial savings.

Statement of fiscal responsibility for the budget year or the period in which headmasters or principals of institutions / facilities have performed the duties in the health system, education system and social contributions and benefits system confirm that they were in an institution provided legal, functional and purposeful utilization of budgetary resources as well as effective functioning of the financial management and control system within the budgetary resources apropos planned resources defined by financial plan. In addition to statement is attached the completed questionnaire on fiscal responsibility for the budget year that includes questions in the

field of planning financial plan, executing the same, the field of public procurement, and the field of accounting and reporting.

Acquiring information required to process topic of this paper was carried out by studying the literature and searching the Internet. Based on the collected data it is necessary to develop a model for the evaluation for introducing fiscal responsibility that should be adjusted to budget users in the Republic of Croatia in the context of further improving the business.

The aim of this paper is to emphasize the importance of implementing a system of internal financial controls as well as the contribution and efficiency of fiscal responsibility law, with an emphasis by increasing the efficiency in terms of controlling future consumption of resources, strengthening the monitoring system and controlling in the execution of a financial plan and in the field of public procurement as well as transparency and predictability of fiscal policy.

Keywords: *fiscal responsibility, financial management and control, transparency, responsibility, budget*

SAŽETAK

Zakonom o fiskalnoj odgovornosti uvodi se odgovornost, transparentnost i stabilnost na svim razinama praćenja poslovanja, a naglasak se stavlja na uvođenje kontrola u proces izvršavanja proračuna. Dobro uspostavljen sustav financijskog upravljanja i kontrola koji ima za posljedicu dugoročni rezultat za dobro financijsko upravljanje je također jedan od elemenata povezanosti s fiskalnom odgovornosti. Interne procedure iz područja planiranja, izvršenja proračuna, područja javne nabave, računovodstva i izvještavanja predstavljaju kvalitetnu koordinaciju financijskog upravljanja i kontrola, a u cilju osiguranja fiskalne odgovornosti.

Poslovni procesi koji se odvijaju unutar institucija/ustanova proračunskih korisnika u sustavu zdravstva, školstva te socijalnih davanja i naknada sastavni su dio financijskog upravljanja i kontrola. Iste je potrebno uspješno i kvalitetno definirati i opisati kao i ugraditi unutarnje kontrole u svrhu poboljšanja aktivnosti pojedinog poslovnog procesa. Za potrebe nesmetanog odvijanja gotovo svih poslovnih procesa važnu ulogu ima proces javne nabave kao komponenta koja osigurava efikasniju realizaciju uz financijske uštede.

Izjavom o fiskalnoj odgovornosti za proračunsku godinu ili razdoblje u kojem su obnašali dužnost čelnici odnosno ravnatelji institucija/ustanova u sustavu zdravstva, školstva te sustavu socijalnih davanja i naknada potvrđuju da su u radu ustanove osigurali zakonito, namjensko i svrhovito korištenje proračunskih sredstava kao i djelotvorno funkcioniranje sustava financijskog upravljanja i kontrola u okviru proračunskih sredstava odnosno planiranih sredstava utvrđenih financijskom planom. Uz Izjavu se prilaže popunjeni upitnik o fiskalnoj odgovornosti za proračunsku godinu koji obuhvaća pitanja iz područja planiranja financijskog plana, izvršavanja istog, područja javne nabave, područja računovodstva i izvještavanja.

Pribavljanje informacija potrebno za obradu teme ovog rada izvršeno je proučavanjem literature i pretraživanjem Interneta. Na temelju prikupljenih podataka potrebno je razviti model za ocjenu uvođenja fiskalne odgovornosti koji bi trebao biti prilagođen proračunskim korisnicima u Republici Hrvatskoj u kontekstu daljnjeg poboljšanja poslovanja.

Cilj ovog rada je ukazati na važnost implementacije sustava unutarnjih financijskih kontrola kao i doprinos i učinkovitost primjene zakona o fiskalnoj odgovornosti s naglaskom na povećanje efikasnosti u smislu kontrole buduće potrošnje sredstava, jačanje sustava nadzora i kontrola u izvršavanju financijskog plana i području javne nabave kao i transparentnost i predvidljivost fiskalne politike.

Ključne riječi: *fiskalna odgovornost, financijsko upravljanje i kontrola, transparentnost, odgovornost, proračun*

1. Introduction

With the entry into force of the Fiscal Responsibility Act it is introduced the obligation to giving the statement of fiscal responsibility⁴³ which represents an annual statement by which leaders of the budgetary and extra-budgetary users of the state budget, the budgetary and extra-budgetary users of local and territorial (regional) self-government, local self-governments and local territorial (regional) self-government confirming legal, functional and purposeful utilization of funds as well as the efficient and effective functioning of financial management system and control within the budgeted or founded funds⁴⁴. The legal and regular planning as well as the execution of the financial plan represents the basis for determining the responsibilities of budget users⁴⁵ in accordance with the Fiscal Responsibility Act.

Financial management and control implies a range of activities that budget users plans to take in order to resolve observed shortcomings in business processes based on self-assessment system⁴⁶. Business process of public procurement contains a range of procedures from planning to report which result undisturbed progress of all other business processes required for effective and economical operations budget users.

2. Connection between financial management and control and fiscal responsibility

The characteristic of a quality system of financial management and control within the organizational system means a coherent legislative framework and established financial reporting as well as reporting on invested or spent budget funds. Business processes such as reporting, planning and budget execution or financial plan, public procurement, accounting and reporting are closely associated with the application of the Fiscal Responsibility Act.

During the establishment of financial management and control budget users are required to introduce the plan to eliminate the weaknesses and imperfections that are attached to the statement of fiscal responsibility in accordance to Regulation on the preparation and delivery of the Statement of fiscal responsibility.

Through the Statement⁴⁷ of fiscal responsibility all budget users report responsible Ministry on their level of development of financial management and control in components of planning, budget execution / financial plan, public procurement, accounting and reporting.

⁴³ According to Regulation on the preparation and delivery of the Statement of fiscal responsibility and reports on application fiscal rules, Statement of fiscal responsibility shall be granted based on the questionnaire on fiscal responsibility. The statement is made by the forms from the Regulation. The same for the first time compiled and issued in 2012. for the year 2011.

⁴⁴ According to Regulation on the preparation and delivery of the Statement of fiscal responsibility and reports on application fiscal rules. (Official Gazette 78/2011)

⁴⁵ Functional associated institutions budget users in the health system are the Ministry of Health, the Croatian Institute for Health Insurance, County / City and health care institutions; in educational system is the Ministry of Science, Education and Sport, the County / City and institutions in education, and in the system of social benefits and compensation: Ministry of Social Affairs and Youth, Counties / city, social care center and social care institutions. Budget users are in the Register of budgetary users of state budget and in Register of budgetary users of local and regional government and are obliged to apply law on fiscal responsibility.

⁴⁶ Stepić D., Knežević M., Kozina D.: Plan uspostave i razvoja financijskog upravljanja i kontrola, Financije, pravo i porezi, TEB, Poslovno savjetovanje d.o.o., Zagreb, 3/12, 2012. str. 87.

⁴⁷ By the Regulation on the preparation and delivery of the Statement of fiscal responsibility and report on the application of fiscal rules is regulated how and on which way to fill and submit the Statement of the Fiscal Responsibility (Official Gazette 78/11, http://narodne-novine.nn.hr/clanci/sluzbeni/2011_07_78_1648.html). By the same is prescribed layout and content of the statement, the procedures and timelines of assembling and delivery as well as methods and deadlines of reporting the Ministry of Finance on the detected irregularities previously performed by inspections of their content. In addition the Statement is submitted a completed questionnaire on fiscal responsibility, the plan to eliminate all the weaknesses and imperfections and reviews of internal auditors of the system of financial management and control for the areas that were audited (taxpayers who have established internal audit). The budget

Adopted business processes, written procedures or controls and applicable regulations within the health system, education, and the system of social benefits and compensation represent connection between financial management and control⁴⁸ and fiscal responsibility.

Considering connection between financial management and control, and fiscal responsibility, it is necessary to define and regulate those processes, which require written procedures in questionnaire on fiscal responsibility. The procedure of creating contractual obligations includes the process of making a financial plan as well as procurement plan. Activities listed in composite procedures should be focused to the development of control activities, systems of records and reporting, with the aim of ensuring lawful, dedicated and purposeful utilization of funds in order to achieve stated goals.

3. Business process of the public procurement

Public Procurement Act⁴⁹ regulates procedures for the award of public contracts and framework agreements for the procurement of supplies, works or services, legal protection in relation to those procedures and the competences of the central state administration body competent for the public procurement system. Public procurement as one of the key business processes which are implemented within the organizational units is associated with the process of planning and reporting process.

3.1. Fiscal responsibility in the field of public procurement

Questionnaire on fiscal responsibility in the field of public procurement contains questions that explicitly indicate the need for the separation of duties or responsibilities and authorities in the preparation and implementation of public procurement. In doing so, the emphasis is on the participation of various persons⁵⁰ in the development of technical specifications, selection of the best deals and monitoring the execution of public procurement. The reporting system of budget users in the field of public procurement in a transparent manner ensures timely and available information about the following:

- Elaboration and implementation of the procurement plan in accordance with the regulations on the public procurement
- Implemented public procurement published in Electronic Public Procurement in accordance with the Croatian Law on Public Procurement

users of the Ministry of Science, Education and Sports (Universities, colleges, universities, institutes, agencies) particularly college with the submission of originals to the Ministry, a copy of the relevant documents submitted to the University which performs formal control (if everything is full) and the Ministry will carry out over the year verification on selected sample. (<http://www.mfin.hr>)

⁴⁸ In accordance with the Article 5 of the Law on the system of internal financial control in the public sector, financial management and control represents a comprehensive system of internal controls established by them and which are responsible leaders of budget users and by which managing risk, provides reasonable assurance that the budgetary and other resources will be used properly, ethically, economically, efficiently and effectively, and in accordance with laws and other regulations. The same includes all business transactions, especially those which are related to revenues / receipts, expenditures / expenses, tendering procedures and contracting, recovery of the amount paid, assets and liabilities.

⁴⁹ The Public Procurement Act, Official Gazette 90/2011, Article 1

⁵⁰ The principle of separation of duties implemented in the Budget Act (Official Gazette, 87/2008) proceeds from the fact that individuals who prepared the technical specifications must be different from the individuals who make the decision on selection. From the above it follows that those who are in charge for the preparation of technical specifications can monitor the execution of public procurement. Applying this principle in compliance with the terms of the Public Procurement Act reduces conflict of interest and discrimination. In terms of control activities required by internal regulations (rules, instructions, directions, guidelines) to regulate the authority and responsibilities of the participants in order to prevent abuses.

- Register⁵¹ of concluded contracts and framework agreements, which imply public procurement contracts concluded in accordance with the conditions specified in the tender documents and with the selected bid.

- In accordance with the Public Procurement Act on the website (or in the official gazette or bulletin board or otherwise) must be available and transparent list of economic entities with whom the taxpayer making a declaration of fiscal responsibility or the client in a conflict of interests within the meaning of Article 13 Public Procurement Act (NN 90/11) or a statement that such entities do not exist.

In addition to the above, the taxpayers of the Public Procurement Act are also required to submit a report on Public Procurement for previous year, to the body responsible for public procurement system.

4. Conclusion

The importance and contribution to the establishment and application of financial management and control is also the starting point of increasing transparency and efficiency of operations by defining control activities for successful management and utilization of budgetary funds.

The application of the Fiscal Responsibility Act aims to balancing of the budget which will result in reducing deficit and stopping the growth of public debt in order to improve investment rating in Croatia.

In order to ensure fiscal responsibility it is necessary greater effectiveness of internal financial controls that permeates the entire organizational structure and also aims to achieve greater efficiency and effectiveness in its entire operations. Fiscal responsibility also requires connection and integration of business processes of public procurement with the existing processes in an environment with an emphasis on faster, more efficient and effective execution of business processes.

It is still necessary to undertake a number of activities aimed at developing and improving elements of all business processes in the field of public procurement in order to improve the operations that are inevitable in view of the forthcoming Croatian accession to European Union.

In order to make maximum use of limited financial funds the answer lies in a unified or joint public procurement, standardization of business processes, documents, information, goods and services as one of the requirements of rationalization.

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Uredba o sastavljanju i predaji Izjave o fiskalnoj odgovornosti i izvještaja o primjeni fiskalnih pravila (NN 78/2011)

⁵¹ Register of concluded contracts and framework agreements according to the Article 21 of Public Procurement Act contains the following information: Object of a contract, procurement registration number and number of announcement, types conducted procedure of public procurement, amount of the signed agreement, date of conclusion of the contract, the name of the tenderer with whom the contract was concluded, the final amount paid under the contract, explanation if it is paid more than the agreed amount.

Uredba o izmjeni i dopunama uredbe o sastavljanju i predaji Izjave o fiskalnoj odgovornosti i izvještaja o primjeni fiskalnih pravila (NN 106/2012)

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Strategija neovisnog razvoja unutarnje financijske kontrole u javnom sektoru (PIFC) u Republici Hrvatskoj za jedinice lokalne i područne (regionalne) samouprave, dostupno na :www.rijeka.hr/fgs.axd?id=31899 , access: 07.02.2013

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