Financial Management and Control Assessment Tool for Local Government Authorities

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Abstract

The aim of developing new Financial management and control (FMC) Assessment Tool for Local Government Authorities is strengthening of local government financial and general management and ensuring that the operational and financial relations between central and local government are compatible with securing the central government objectives. The paper presents the author's approach to the development and adaptation of FMC assessment tools to the local government authority needs. The development of a mechanism for evaluating the effectiveness of the FMC-system at the local level performs the number of important functions, among which the authors singled out: reducing information asymmetry by providing reliable and comprehensive information, protecting the property and documents, ensuring effective economic performance, observation of accounting principles and presentation of reliable financial records, obeying laws and executive acts, implementation of the effective system of risk control. The authors proposed such elements of FMC assessment for local government authority as Questionnaire for Senior Management; FMC benchmark criteria; Assessment Questions regarding relation local body and subordinated/related bodies; Questionnaire for preliminary assessment phase; Interview questions. The combination of instruments depends mostly on the scope of assessment.

Keywords: *Budgetary Policy, Financial management and control, Local Government Authority, Public Finances*

JEL Classification: *H7, H83, M48*

1 Introduction

The concept of good governance is interlinked with institutionalized values such as democracy, observance of human rights, accountability, transparency and greater efficiency and effectiveness of the government sector of any country. Good governance in the context of countries is a broad term. It has a significant impact on government performance and is therefore essential in building trust in government and delivering necessary structural reforms.

The central government has a key responsibility to manage the national economy and the balance between the public and private sectors. Local government (LG) expenditure forms part of public expenditure and therefore central government economic management decisions impact LG. Managing the economy the central government must have a comprehensive understanding of the impact that its decisions will have upon the different sectors of the economy including LGs. Without that understanding inefficiencies in public expenditure management will occur. Those inefficiencies can be compounded in the case of local government by inadequate information about the actual costs of providing services by local governments to certain standards as well as by the arrangements for the timing and transfer of funds from central to local governments as well as the arrangements for the equalization of resources against needs. The quality of financial management within local governments will determine how well the local government sector of the economy is managed and the central government will be concerned about the efficiency and effectiveness of LG and its actions should encourage LGs to improve its performance. Achievement of the goals of creating integrity-based public administration by local government authorities covers attainment of long-lasting improvements, transparency and accountability in public financial management (ACCA, 2010).

However, not only accounting for funds should be the focus of government managers, as long-term strategic planning needs monitoring of daily tasks for compliance with long-term goals, which requires assessment of the value of the programs and measurement of their accomplishments. Financial management is about much more than the preparation of budgets to meet the consequent budgetary control arrangements. An important element of general management is FMC, which is not just a form of financial and budgetary control, although these are part of Financial management and control. FMC is about the delivery of the objectives, to time, to standard, efficiently and effectively, by the management of the organization. This means that the manager should be involved in the formulation of the budget and that the expected achievements should be directly linked to the available budget. Accountability then requires that those objectives and performance standards are published and that in turn generates pressure upon managers to improve efficiency and effectiveness. Being ingrained in all business systems and functions FMC is essential to ensuring that an organization is functioning effectively and efficiently (DiNapoli, 2016). Institutional development of FMC-system will always lead to improved financial performance (Nyakundi, et al., 2014).

Financial management and control system`s challenges at the LG level are similar to the central government level (Eton, 2019). FMC at the local level should be focused on the achievement of the organization's mission, with special emphasis on reducing opportunities for fraud and minimizing corruption, avoidance of bad publicity and insurance of public confidence, prevent loss of resources, and information asymmetry neutralization through minimization of reporting errors.

Ineffective FMC is a consequence of serious deficiencies in financial data, systems and staff skills resulted in unreliable planning, budgeting and reporting (ACCA, 2010). Eton (2019) clarifies such problems of FMC for local authorities as a demonstration of oversight to implementation of planned activities just for the sake, that's why some projects appeared to be poorly coordinated and, in some cases, are abandoned before completion. DiNapoli (2016) states that one of the most dangerous things in weak Financial management and control system is that it leads to a lack of accountability and as a consequence, this results in the erosion of public confidence and support and hampers an organization's ability to serve the public effectively. Local governments FMC mechanisms in developing countries appeared to be weak at actual management of risks, so management at the local government level should tighten and strengthen the Financial management and control systems (Eton, 2019).

Therefore, it becomes increasingly important to define the main problems with the present financial and institutional arrangements between central and local government. The specific for transition and developing economies challenges are:

- suboptimal range of spending powers of local budgets: the lists and amounts of expenditures on the exercise of delegated and own powers are not settled; the mechanism of the calculation of expenses on the exercise of delegated powers is inefficient;
- insufficient financial capacity of LGs resulting in stringent budgetary restrictions imposed on the exercise of their powers and hampers the investment development of communities;
- lack of the available LG budgetary policy toolkit to support the day-to-day management of budget funds;
- lack of optimization and efficiency gains in the budget process and lack of medium-term budgeting;
- lack of proper financial transparency and accountability of LGs to municipalities, and mechanisms of independent external audit and public oversight over the management of local finances and municipal assets.

A particular concern of the central government is that weaknesses in financial management in LGs also result in inconsistent and sometimes poor service delivery of delegated powers, quite apart from the further concerns about poor internal financial control and lack of transparency. Examples of the weaknesses that presently exist in former Soviet Union countries can be defined as (*i*) non-efficient budget process prone to potential errors with potentially inconsistent use of accounting principles; limited capacity to monitor the budget for results, use budget funds cost-efficiently and in a result-oriented way, with a medium-term time horizon; (*ii*) weak fiscal framework and oversight of local government borrowing and (*iii*) limited accountability of local governments (weak internal and external audit).

The organizational and managerial infrastructure must support, know how to utilize and follow-through using accountability mechanisms to ensure that objectives and performance are achieved. Without that reforms will be largely nominal and will not achieve the benefits hoped for. It is also not simply a matter of writing rules and approving legislation. ~~The aim of developing new Financial management and control Assessment Tool for Local Government Authorities is to strengthen local government financial and general management and ensuring that the operational and financial relations between central and local governments are compatible with securing the central government objectives.~~ The aim of this article is to stress the importance of financial management and control development for local government and to propose the new Financial management and control Assessment Tool for Local Government Authorities. Such a tool might be used as the instrument for testing the FMC systems, based on assessment results, development of recommendations for improvement, as well as for comparison of the FMC systems in between different Local Government Authorities.

2 Theoretical background

During the analyses of theoretical aspects of the concepts of FMC-system Lakis and Giriūnas (2012) gave a broad definition of FMC as "all-inclusive activity in financial and management accounting, as well as in the strategic management of projects, operations, personnel and the total quality management" (Lakis and Giriūnas, 2012). DiNapoli (2016) defines FMC as a process, effected by an entity's board of directors, management, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. In a broad sense, FMC is the integration of the activities, plans, attitudes, policies, systems, resources and efforts of the people of an organization working together to achieve its mission (DiNapoli, 2016).

In terms of unfolding the permanent financial crises and increasing imbalances in capital markets, King (2011) defines FMC over fixed assets as "not just having a printout of bought assets but having an assurance that the assets you think you own are still there, and that they have not gone missing" (King, 2011). Some researchers consider FMC as an intervening variable in the budgeting process (Gachoka, et al., 2018). In the context of budget implementation Financial management and control systems manages public finance in a way that minimizes deficits and ensures value for money to taxpayers (Eton, 2019). FMC will be most effective when it is built into financial the entity's infrastructure and is a part of the essence of the organization (Saeed and Dashti, 2014). FMC being a part of Financial management and control system encompasses the managerial responsibilities, at all levels, of public income and spending centres related to implementing a system of control that ensures adequate planning, programming, budgeting, accounting, controlling, reporting, archiving and monitoring. Managers that bear these responsibilities should be held accountable for their activities (operational activities as well as activities related to FMC) (e.g. 'Welcome to the world of PIFC', European Commission, 2006). Based on the effectiveness concept FMC is a set of policies and procedures adopted by an entity in ensuring that an organization's transactions are processed appropriately to avoid waste, theft and misuse of organization resources, to enable the production of reliable reports and ensure compliance with laws and regulations (Nyakundi, et al., 2014). The study of Benedek et al. (2014) is focused on the FMC-system of the public finances' subsystem of local governments. FMC-system is defined as a management information system that serves as a basis for all management decision making and, at the same time, ensures that steps are taken in the direction of the organization's goals (e.g. Benedek et. al, 2014).

FMC is mostly identified as measures instituted by an organization to ensure the attainment of the entity's objectives, goals and missions. INTOSAI specifies the following general objectives for FMC: 1) executing orderly, ethical, economical, efficient and effective operations; 2) fulfilling accountability obligations; 3) complying with applicable laws and regulations; 4) safeguarding resources against loss, misuse and damage (INTOSAI, 2004).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed *The COSO Integrated Control Framework* (1992) aiming at uncovering fraud, identifying, managing organizational risks and established a system of FMCs. The COSO Guidelines specifies five necessaries for effective FMC components: Control Environment, Risk Assessment, Control Activities, Communication, Monitoring (COSO, 1992). An updated Internal Control-Integrated Framework is developed on a principles-based approach that provides flexibility and allows for judgment in designing, implementing, and conducting Internal control (COSO, 2013). Being an internationally recognized integrated framework for Financial management and control, the COSO model is based on 17 underlying principles and 81 points of focus necessary for an entity or organization to effectively manage risks through the implementation of Financial management and control (COSO, 2015). The versatility of the COSO model lies in the possibility of its use for different levels of management - a separate department or an organization as a whole.

Developed by the Federation of European Risk Management Associations (FERMA) and the European Confederation of Institutes of Internal Auditing (ECIIA) *Three Lines of Defense* is a widely used model to describe functional groups in any organization that have responsibilities related to FMC. First-line deals with operational management combining Management Controls and Financial management and Control Measures. The second-line performs supportive, oversight, control and monitoring functions covering Financial Control, Security, Risk Management, Quality, Inspection and Compliance. Third-line deals with independent and objective Internal Audit. Being implemented into systems and processes under the guidance of operational management FMC as the first line of defense. It should be noted that separate and clearly defined lines of defense are the key to the success of establishing an effective FMC system. Being quite flexible the Three Lines of Defense Model outlines coordination and assignment of specific duties related to risk and control within an organization, regardless of its size or complexity and clarifies the difference and relationship between the organizations' assurance and other monitoring activities (COSO, 2015).

The European Commission (2006) developed a *Public Internal Financial Control (PIFC*) framework for countries in a reform which encompasses the key requirements for adhering to good public governance principles: adequate FMC-systems, an independent and objective internal audit function and a central harmonization unit as accelerator and stimulator for PIFC-reform (EC, 2006). PIFC follows the latest in International Standards on Financial management and control – INTOSAI Guidelines for Internal control Standards for the Public Sector (2004), the EC IIA Position Paper on Internal Audit in Europe (2015). Internal accountability arrangements are recognized to be a determining factor, as is the content of accountability of those responsible for carrying out public tasks (EC, 2014).

Internal control Working Group of the Public Expenditure Management Peer Assisted Learning (PEMPAL) Internal Audit Community of Practice (IACOP) developed Guidance for Public Sector Internal Auditors to create a tool for assessing the Effectiveness of Internal control. The purpose of the guidance is to help internal auditors better understand the main features of effective FMC. The ways of assessing and evaluating the functionality of FMC systems are also under consideration. IACOP developed a generic four-level model for assessing the maturity (or capability) of Internal control: 1st level - Informal (Ad-hoc /Chaotic); 2nd level - Defined (Standard / Repeatable); 3rd level - Managed & Monitored (Predictable); 4th level - Optimized (Efficient/ Effective) (IACIOP). The National Academy of Finance and Economics of the Dutch Ministry of Finance is also actively involved in the development and testing of the FMC assessment tool for central government authorities.

Regular assessment of the FMC system ensures the safety of the organization against fraud from senior management, company management and its employees. For this purpose, it is proposed to use individually developed test polls for each audited organization given its specifics. The premises on which the FMC assessment tool should be based embraces the idea that targeted actions for improvement of an entity's FMC and control are only possible after a thorough assessment which should deliver sufficient insight into the area's that are suitable for improvement. Only when that insight is available management can formulate relevant and realistic actions. DiNapoli, T. P. (2016) emphasizes the importance of the adaptability of the FMC assessment tool to the entity`s structure as it should be flexible in application to the entire entity or a particular subsidiary, division, operating unit, or business process. The key issues include the form of ownership of the entity, its size, industry specification, etc. In the context of local bodies, FMC help to assure that public funds are administered and expended in compliance with applicable statutes and regulations; that funds are used for purposes for which they were authorized and intended; and that there is accurate reporting regarding the use of those funds (Vermont League of Cities & Towns, 2017).

As FMC in the public sector basically cannot be separated from efforts to improve and enhance managerial performance impact on society, it is extremely important to implement FMC system on the local level to improve the financial accountability of the organization by driving decision-making by managers better (Kewo, 2017). Kewo (2017) states that FMC and assessment system on a local level is a very important part of the overall spectrum control mechanisms are used to motivate, measure and impose sanctions on the actions of managers and employees a prerequisite for better performance.

2.1 Financial management and control development in different countries

Establishing good governance requires local government officials to become more responsive to the demands of their environment, to provide better, transparent and accountable services (Kewo, 2017). To meet specifically for each country economic, operational and legal aspects the system of FMC should be adopted to the context of national administrative culture. Public FMC reform started in different countries at different times, and the start of the reform did not depend on the level of economic development of the country, for example in Croatia in 2004, Georgia in 2010, France in 2011. Preferably the system of FMC among the countries is based on generally recognized core principles of the COSO Framework, for example, the COSO concept model is widely used in France, United Kingdom, Croatia, Georgia, Kazakhstan.

Local government FMC-systems is prescribed by legal regulations, for example in Hungary such documents are - Act on the Local Governments of Hungary, Act on Public Finances, Government Decree on the Financial management and control system and the Internal Audit of Central Public Administration Bodies. In Georgia, the core document is Public internal financial control law, in Croatia – Public internal financial control act, in the Czech Republic some of internal control function contents Act on Financial control. Such countries as France and the United Kingdom do not have separate core documents on FMC.

The Concept of FMC varies, while some countries have special independent FMC institutions, others give the responsibility for FMC to the respective administrative entities; a decentralized system of FMC can be embedded and form an integrated part of the administration.

Supreme Audit Institution or similar body/organization exist in Kazakhstan in the form of Accounts Committee, in Georgia, Croatia - State Audit Office and in the Czech Republic Supreme Audit Office, in France - Accounts Chamber, in the United Kingdom - National Audit Office. It should be noted that the scope of the Supreme Audit Institution in mentioned countries cover local bodies and local budgets, except the Czech Republic. Czech Supreme Audit Office is not authorized to audit either finances of local and regional authorities or to audit companies co-financed by the state or by self-government. In Kazakhstan and the United Kingdom financial inspection doesn't exist as an independent body but its functions are performed by the Accounts Committee and National Audit Office respectively. In some countries the functions of financial inspection are centralized –

General Economics and Finances Control (Ministry of Finances) and General Inspection Service (Ministry of Finances) in France; Sector for budget supervision and supervision of concessions in Croatia. Still from the considered countries, the scope of financial inspection covers local bodies only in France and Croatia. Internal audit is a mandatory function only for the central government in France and the United Kingdom, while local representatives are deprived of such responsibilities. In contrast in Croatia and the Czech Republic, internal audit is obligatory for local and as for central level representatives.

The problem of a weak finance performance and FMC-system is widespread. Kewo (2017) complained about the poor performance of the local governments in planning at the local level such as provinces, districts and cities in Indonesia as "the management of financial resources the country still marked deviations, from the planning and budgeting, implementation, and accountability report" (Kewo, 2017). But demand always generates supply. The local council in Australia have demonstrated minimal levels of accountability in the late 1990s, this resulted in increasing demand for additional information on how governments manage and spend public funds (Jones and Beattie, 2015). Recognition of the problem is the prerequisite for the development and implementation of an effective system of counteraction.

3 Results and Discussion

The previously defined depth and scope of the FMC assessment determine which instruments are suitable to use, at what level and to what extent. *Depth'* refers to the question of whether a substantial, 'deep digging' assessment which contains document study, questionnaires and interviews should be conducted or, only a quick scan of the current situation. The depth of the proposed assessment is for the most part dependable on what is already known and the available time and resources to conduct the assessment.

FMC may vary significantly cause controls in small towns with few employees will naturally be different from controls in larger towns that have more employees in the financial function. The general concept requires the development and adaptation of basic FMC assessment tools to the LG authority needs. We suggest the following elements of FMC assessment for LG authority: Questionnaire for Senior Management; FMC benchmark criteria in a form of baseline MATRIX; Assessment Questions regarding relation local body and subordinated/related bodies; Questionnaire for preliminary assessment phase; Interview questions. It should be noted that as not one assessment environment is the same we advise combining instruments. This is partly dependable on the scope of the assessment.

3.1 Questionnaire for senior management

This tool should be developed to interview responsible representatives at the local level which bears the ultimate responsibility for a sound functioning FMC. It aims to assess the integrity and ethical values, the extent and the way senior management has sufficient oversight on FMC matters, the way senior management sets responsibilities and authorities throughout the entity (and if applicable, its subordinated and related bodies), the way commitment to competence is guaranteed and in what way reporting and accountability structures related to the organizational objectives are set by senior management.

The leadership, the actions and the tone established by the senior management have a profound impact on how the responsibilities and tasks of the organization are performed, how objectives, goals and mission are achieved.

3.2 The FMC-assessment MATRIX

FMC benchmark criteria in a form of MATRIX encompasses the inner workings of FMC and its coherence combining a set of overall criteria determined by the benchmark criteria against which the assessment results should be analyzed. Criteria are described for the core managerial activities (e.g. risk management and ensuring proper controls). In addition, also specific criteria are mentioned which have a relation to the budget cycle (e.g. integration of budgeting with the planning process). The MATRIX can be divided into five sections:

1. General conditional characteristics: these elements contain the minimum requirements which should be in place to build and maintain a proper FMC system;
2. Criteria related to PLANNING activities;
3. Criteria related to EXECUTION activities;
4. Criteria related to CONTROL and MONITORING activities;
5. Criteria related to RESPONSIVE ACTIONS.

The key assessment criteria as outlined in the MATRIX can be summarized or grouped in a shortlist of FMC-related areas:

- *Managerial Accountability*: the cornerstone of FMC. These criteria are aimed at how on the managerial levels the balance is organized between responsibility, authority and accountability;

- *Objective setting***:** criteria are aimed at assessing in which way objectives are set at the managerial and oversight levels. Also, the level of SMART-ness is assessed;
- *Risk and Control***:** defines criteria concerning the risk assessment, the risk management process and its relation to control activities;
- *Tasks and responsibilities:* aims to assess criteria related to specific tasks and responsibilities related to crucial (internal) control activities;
- *Planning and control:* defines criteria aimed at assessing how internally reporting lines are organized and what it consists of in terms of managerial information (Key Performance and Financial Indicators) and communication;
- *Monitoring:* assesses the criteria mainly concerning second-line functions and their monitoring role towards the first line;
- *Role of internal audit towards FMC:* criteria that link internal audits role to FMC (part of monitoring);
- *The budget cycle:* assesses criteria that connect the managerial (first and second line) responsibilities and – accountabilities to specific aspects of the budget cycle (e.g. budget execution).

3.3 Assessment questions regarding relation local body and subordinated/related bodies

The role of these questions is to evaluate the budgetary and managerial relations. Interviews should be conducted with local representatives of key functions which play a role in planning, execution, monitoring and adjusting the budgetary, managerial and operational relationship between the local authority and subordinated and/or related bodies.

The interview aims to show that the fundamental key requirements are expected to be in place (in regulation and practice), such as:

- Is the local authority responsible for the execution of delegated budgets to subordinated and/or related bodies as well as operational- and policy outcomes;
- The local authority has sufficient insight into the FMC at the level of subordinated and/or related bodies: hence, the local authority can rely on the managerial information send from these bodies;
- The local authority has sufficient insight into the budget execution of subordinated and/or related bodies as well as insight in the performance;
- Management (senior and operational) of the subordinated and/or related bodies has the responsibility for executing the budget and thus ensure that the operations which should achieve intended objectives are organized efficient, effective and well-controlled;
- Management (senior and operational) of the subordinated and/or related bodies is held accountable (by the local authority) for the execution of the budget, the operations (performance) and the quality of FMC (IC-system);
- Operational managers at subordinated and/or related bodies-level are involved in planning and budgeting/programming in coordination and cooperation with the local authority;
- Operational managers at subordinated and/or related bodies have sufficient delegated mandates to conduct their tasks and achieve their objectives: this includes the objectives of efficiency, effectiveness and proper control;
- Operational managers at subordinated and/or related bodies receive sufficient support from the local authority to achieve their objectives;
- Operational managers at subordinated and/or related bodies conduct risk management and adjust/asses their control systems based on it.

To get the picture complete regarding the fundamental key requirements as outlined above, it is first vital to get sufficient insight on the level of legislation and procedures. Examples of recommended documents to study in this respect are:

- The translation of strategic goals to operational objectives;
- The budget process: preparation, approval, execution and evaluation: how is this process regulated? Who is involved?
- FMC related regulations/procedures: how are KPI’s linked to objectives, how is the accountability structure organized? What are the key-reporting lines (and about what?)? What requirements are formulated regarding FMC? What are key checks and balances in the relation between the local authority and subordinated and/or related body;
- Budget programs/budget passports: might give additional insight into how the previous aspects are worked out related to a specific program objective;

- Task, responsibility and mandate procedures give insight into the relation between local authorities and subordinated and/or related bodies.

3.4 Questionnaire for assessing and scoring the FMC system within an entity

The questionnaire for the preliminary stage should be based on the FMC-MATRIX which provides a baseline for benchmark criteria. For each criterion in each section, a key question should be formulated together with scoring possibilities. It should be noted that the assessment aims to make visible where the gaps are related to the benchmark baseline criteria. This means that the questionnaire does not provide a definite scoring, or maturity level rating, of the FMC overall. This is done on purpose since there is no one best way to configure the FMC. It is highly dependable on the context, the legislation, existing procedures and the organization and tasks of the entity itself.

The questionnaire is primarily useable to send out to key officials/employees within the distinctive lines of defence. It can be used tailor-made depending on the needs and wishes of senior management. However, it is recommended to use the questionnaire in its totality given the interdependency of the sections and criteria. The results of the questionnaire can be presented in (for example) a traffic light format in which it becomes visible in which area's deviations occur compared to the benchmark baseline.

3.5 Interview Questionnaire for self-assessment/interview set

- *Interview Questions for first-line (operational) managers*

How would you categorize the level of delegation in your institution? Very limited or not?
Is it clear for you as a manager what your mandates are regarding operational decisions? Is this described?
As a manager, are you able to make changes in the way the processes you are responsible for are organized? Can you give some examples? If you would see a way to make your processes more efficient, what would be your approach to introduce that change?
Do you need permission from senior management for operational decisions (e.g. procurement, staff exchange etc.)?
Do you have a say/influence or do you play a role in decisions in and phases of the budget cycle?
Are the resources that you have (budget, people, assets) well balanced with the objectives that you need to achieve? If this would not be the case, what would be your course of action?
Are the responsibilities for you and your staff clearly connected with the objectives that must be achieved? How this is expressed in for example task descriptions/job descriptions?
How would you define the range of responsibilities? Is it confined to operational responsibility (reaching my operational objective)
Are you responsible for the FMC measures that should prevent undesired risks in your process?
Do you have KPI's related to the objectives that you need to strive for? What kind of KPI's? Where are they described? Examples?
If objectives are not reached, what happens then?
In general: do you see a clear connection between operational objectives (like yours) and the strategic goals of the institution?
Are you also being held accountable for financial aspects?
Do you have insight in your financial position?
~~Can you describe in general what your reporting obligations are? (if any): to whom? About what?~~
Do you get periodically feedback from the units/functions you are reporting to? What kind of feedback?
~~Do you receive managerial information? What kind of information? How do you gather the information?~~
~~Do you have to report about your financial position?~~
~~Do you have contact with the internal audit? Does an internal audit report about your activity? Do you have insight into that information? What happens with it?~~
Can you describe how objectives are set in the institution? What is your role in that process? Where are objectives described?
Are objectives clear, precise, measurable, and realistic in your opinion? Are the objectives related to the budget? How is that done?
Are there also objectives related to FMC and financial management? (At your level, at other levels?)
Do risks within your realm of responsibility get assessed? Who does this? Is this registered somewhere?
Are you, as a manager, involved in assessing and dealing with risks in your processes?
What kind of risks is typical/inherent for your processes?
~~If you would see/detect a risk related to your processes…what would be your course of action?~~
Who implements control measures (if necessary) in your processes? Can you give some examples?
Are your processes described? Who supports you (if any) in ensuring that your processes run smoothly?

~~Who is in your opinion responsible for managing risks in your institution?~~
~~Does internal audit support you in any way related to risk management?~~

- *Interview Questions for second-line functions (e.g. planning department or financial department)*

What information do you /your department have regarding the operational/program level? How does this information come about?
What is your role in the budget cycle?
What reporting mechanisms are in place? (Accounting system, information from internal audit etc.)
Do you have insight in the risks that the operational/program level might face?
What is the role of your department concerning the operational level?
Does your department/unit play a role in the setting of objectives? If so, how?
In your opinion: do you think objectives in the institution are logically aligned (cascade from strategic to operational level)?
What is your role in the risk management process? (if any)
Who assesses the risks in the institution? Is these process documents? Is there a risk register?
Who keeps track of specific financial risks related to the budget? What is the course of action here? Is this described somewhere?
In case you detect financial risks, what is your course of action?
In case you detect operational risks, what is your course of action?
Do you discuss risks (whether it's financial or not) with the operational level or with senior management?
How would you describe the 'risk culture' in your institution? Is it a topic that is on the agenda?
If changes in internal operations are necessary, who initiates these changes? Who implements them?
~~How would you describe 'financial management and control'?~~
~~Do you advise management on the implementation of specific control measures related to detected risks? If not, then who does it?~~
~~Are internal processes described? Who takes care of that?~~
~~Who is responsible for financial management? Who is responsible for control (measures)?~~

- *Interview Questions for Internal Audit*

Do you assess the FMC unit as a specific topic of interest? How?
How would you rate the awareness regarding FMC in the institution?
Does internal audit assess specific aspects of the budget cycle? What elements?
Does internal audit assess the quality of internal reporting? Provide an example
Does internal audit assess the overall internal governance system? Provide an example
Is internal audit involved in the managerial risk management process? Provide an example
How are the follow-up arrangements organized for results of internal audits work? Is it discussed at the senior level? Is the operational/program level involved?

The suggested set of questions may be used in a self-assessment by the operational managers (from the working group) or by the assessor in an interview or a meeting with operational managers. These ways are depending on the maturity of the FMC configuration, as well as on the proficiency and skills of the assessor. If the entity staff is sufficiently competent and skilled, then is suitable to use the questions for the self-assessment approach. If not, then interviews performed by an external party are a good solution.

The efficient and effective provision by LGs of such important services as health, education and social care functions requires a high standard of general and financial management. So far as financial management is concerned this requires much more than being responsible for input controls. Budgets should be linked to objectives and performance standards. Costs should be analyzed over cost centres and particular activities (such as for education, individual schools, courses, age groups, types of activity, transportation of children; for health diagnostic related groups, types of institution, different activities within hospitals such as operating theatres and ambulances; for welfare services, costs of administering different types of welfare benefits, costs of different benefits offices), not just those required for budgetary control purposes.

Changes to the financial management arrangements within LGs along with the development of output budgeting could also affect the present organizational arrangements for the preparation of budgets and therefore the role and responsibilities of the finance departments of regional councils. Shifting the FMC focus to outputs from inputs also means that performance outputs are linked to budgets. Therefore, to achieve improvements to budgeting and accounting in LGs and considering the principles of good governance (which mean that decisions should be transparent and take into account only those factors that relate to the particular problem or issue) this should not be treated as simply a technical reform.

As FMC is not a serial process but a dynamic and integrated process, a smaller entity's system of FMC may be less formal and less structured (COSO, 2013). Still, it`s critical for FMC Assessment Tool for Local Government Authorities to be focused on five general aspects which can be seen as the driving forces of FMC:

- Integration: refers to the extent to which crucial FMC-related processes are combined and/or are seen/organized in its interconnectivity (planning, programming/budgeting and accounting);
- Participation: refers to which extent relevant functions within the entity are involved in FMC-related activities (e.g. involvement operational management in planning and budgeting);
- Delegation: refers to the extent of delegated mandates, responsibilities and tasks. Delegation influences internal accountability arrangements;
- Coordination: refers to what extent FMC-activities are coordinated regularly (e.g. coordinating meetings with planning- and financial departments, Audit-/Control-Committee's);
- Communication: refers to to what extent relevant information regarding FMC flows through the entity in a timely fashion aimed at the right target groups (e.g. flow of managerial information, accounting systems).

To improve the quality of financial management a strong and effective finance department is necessary. That finance department should cover the responsibilities summarized above and should be accountable to the management of the local government. The financial department of the local government needs to play a key role in assessing efficiency and effectiveness or in the linking of budgets with service objectives, performance standards and performance outputs.

4 Conclusion

The system of FMC should be implemented at state agencies and should be actively used by local public authorities to help safeguard public assets at the local level and promote accountability in local government. The main purpose of our research is to propose a set of tools that will help to implement an effective system of FMC assessment at the local level (not only for developing countries). Therefore, the right combination of instruments that suits certain needs of an entity should be selected. At the local level, FMC-system efficiency should not be evaluated for the sake of assessing as the assessment should generate sufficient information for targeted action plans. Information asymmetry worsens the coordination of some general purposes of the system of FMC. To improve the coordination between central authority, local bodies, and subordinated entities it`s extremely important to find weak points of contact in the communication sphere.

~~An important parallel development that should increase the pressure upon LGs to prepare budgets for local services which reflect local needs, to show how they have administered delegated services, how they have utilised local assets and improved efficiency and effectiveness is through increased transparency to local taxpayers and the local population. This facilitates local accountability~~. We are aware that each country has its on specifics, the size structure of the local self-government and the legal regulations of its functioning and as well the concept of FMC-system in individual countries varies. Suggested FMC assessment tool for Local Government Authorities is designed as a universal tool that an individual local authority should adapt to its conditions and in specific country legislation. Further research will be devoted to the adaptation and analysis of FMC-system implementation in the conditions of local authorities in selected countries.

~~Suggested FMC assessment tool for Local Government Authorities is designed to encourage the development of local accountability through increased transparency.~~

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