ReSPA

Regional School
of Public Administration

MANAGERIAL ACCOUNTABILITY AND RISK MANAGEMENT

concept and practical implementation

Discussion paper

I Introduction

The objective of this discussion paper is to explain the concept of managerial accountability and risk management and to introduce a discussion about their practical implementation. The questions will be used to trigger discussions during the Workshop of PIFC Working group which ReSPA is organizing on 28-29 June 2017 in Belgrade for the Heads and participating staff of Central Harmonization Units (CHU) from ReSPA Members and Kosovo*[1].

The practical aspects of managerial accountability and risk management in this discussion paper are based mostly on the Croatian experiences and will be supplemented during discussions by the practical experiences of ReSPA Members and Kosovo*. The intention is that the answers to the questions and conclusions of the discussions will allow the formulation of practical recommendations for developing and enhancing managerial accountability and risk management in ReSPA Members and Kosovo*.

II The Concept of Managerial Accountability

The concept of managerial accountability for the purpose of this discussion paper is considered in relation to the concept of Public Internal Financial Control (PIFC) and in relation to the overall framework for good public administration.

A) Managerial accountability as a cornerstone of PIFC

The concept of Public Internal Financial Control (PIFC) has been developed by EC with the aim of helping candidate and potential candidate countries for EU membership to improve the quality of public financial management. The PIFC concept is based upon international standards of internal control and internal audit and best European practice in regard to its implementation.

Underlying the PIFC concept is the fact that public financial resources no matter from which sources are coming from (national or EU funds) should be managed not only in line with legality and regularity, but also in line with transparency and accountability as well as economy, efficiency and effectiveness.

[1] * This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

The PIFC concept as such requires significant changes to be done in order to move from "traditional way of management" which is usually present in the candidate and potential candidate countries towards "modern way of management".

In the traditional way of management the focus of the management and control usually is on meeting budget and cash limits as well as legal requirements. A little, if any attention is paid on meeting objectives and performance standards and related to this on achievement of efficiency and effectiveness in using public finance resources.

Modern way of management requires that management is considered in a wider sense where: "*Management includes establishing a plan or road map for what is to be accomplished, allocating resources to implement the plan within the agreed timescale, then establishing what actually was achieved compared with what was originally envisaged, identifying the differences and the reasons for them and with feeding that back into original plans and resource allocation decisions. And management has to be accountable which in turn requires transparency.* ***Accountability rests upon clarity and understandability in reporting arrangements and the capacity of those to whom information is made available to access, interpret and challenge that information***"[2].

Accountability is recognized as one of the basic principle of PIFC. European Commission defined eight (8) principles that serve as a basis for effective Public Internal Control (PIC) and accountability is one of them. The principles defined by European Commission are published in the position paper "Principles of Public Internal Control" [3]

Here is important to mention that the concept of Public Internal Control (PIC) used for the EU member states correspond to the EU concept of PIFC which is relevant to candidate and potential candidate countries for EU membership.

The principle "Accountability triangle is a cornerstone of PIC" elaborates the relation between accountability-responsibility-authority as follows:

- *there is no responsibility without authority (authority as a precondition to responsibility);*
- *there is no responsibility without accountability (accountability as a necessary consequence of responsibility);*
- *no responsibility should be assigned or accepted without the necessary resources to deliver;*
- *overall and final authority, responsibility and accountability stays on the highest political and administrative levels in public sector entities; top management level (ministers, senior management) are authorized, responsible and ultimately accountable for all aspects of the public entity's functioning, its results and impact.*[4]

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[2] Noel Hepworth, Managerial Accountability PIFC's cornerstone; Conference on PIFC, Brussels, September 2009, pg. 2
[3] Principles of Public Internal Control, Position Paper No. 1, Ref. 2015-1
http://ec.europa.eu/budget/pic/lib/docs/2015/CD02PrinciplesofPIC-PositionPaper.pdf
[4] Principles of Public Internal Control, Position Paper No. 1, Ref. 2015-1 (pg. 7-8)

Based on the above mentioned it could be concluded that managerial accountability requires decentralization of authorities and responsibilities. The allocation of responsibilities requires to be matched by sufficient authority and resources to deliver objectives and performance indicators. There should be established reporting lines since the managers have to report to their superiors how well their responsibilities have been carried out.

In brief, managerial accountability means that managers should be accountable to their superiors in the organisation and should be obliged to report to those superiors on how well their responsibilities have been carried out. This is in line with the definition of Accountability which is also given in the Principles of Public Internal Control provided by European Commission, as follows:

"Accountability is the obligation to account and answer for the execution of responsibilities to those who entrusted those responsibilities (obligations to perform). These responsibilities are delineated by the actor's authority (empowerment) – the right to act. Accountability involves provision of information on, as well as explanation and justification of actions, activities and choices."[5]

The candidate and potential candidate countries in their legal framework related to PIFC also define the managerial accountability. During discussions it could be elaborated whether the definitions of managerial accountability in ReSPA members and Kosovo' laws and regulation on PIFC, correspond to the definition of accountability provided in the Principles of Public Internal Control issued by EC.

In the Croatian Law on Public Internal Control issued in July 2015 the managerial accountability is defined as follows: *"Managerial accountability means the accountability of the managers for his or her decision and actions, including the ones related to managing with funds, to those person who appointed them or delegated their powers and responsibilities."*[6]

With respect to managerial accountability, Croatian Law on Public Internal Control also elaborates:

- what does include the accountability of the Head of Public Sector Entity (Article 7)
- delegation of authorities and responsibilities (Article 8)
- what does the accountability of the heads/managers inside the organisation structures include (Article 9)

It is important to mention that Croatian Law on Public Internal Control specifies that delegation of authorities and responsibilities does not exclude authorities and accountability of the Head of Public Sector Entity (Article 8).

[5] Principles of Public Internal Control, Position Paper No. 1, Ref. 2015-1 (pg. 7)
[6] Croatian Law on Public Internal Control, Article 4, point 26 OG 78/2015

Points for discussions
1. Does the definition of managerial accountability in the laws and other regulation related to PIFC in ReSPA Members and Kosovo* correspond to the definition of accountability in Principles of Public Internal Control? 2. Do the laws and regulations related to PIFC require delegation of authorities and responsibilities and reporting line to be set up? 3. Are there additional guidelines and manuals which explain the concept of managerial accountability and requirements for its practical implementation?

B) Managerial accountability as a part of the overall framework for good public administration

A managerial accountability could be also considered in the context of the overall framework for good public administration.

A well-functioning public administration plays a fundamental role in the European integration process by enabling the implementation of crucial reforms and efficient accession dialogue with the European Union. [7]

The European Commission (EC) has outlined six key areas of Public Administration Reform as follows:

- Strategic framework for public administration reform
- Policy development and coordination
- Public service and human resources management
- **Accountability**
- Service delivery
- **Public Financial Management (PFM)**

These six key reform areas form the basis of the Principles of Public Administration that have been further elaborated by OECD / SIGMA. The first edition of document *The Principles of Public Administration* has been issued in 2014, and the new, updated edition has been issued in 2017.[8]

The Principles of Public Administration outline the main requirements that countries should follow during the European integration process. The Principles are complemented by monitoring framework which makes it possible to assess the state of public administration at a specific time, as well as progress made over time. The monitoring framework consists of set

[7] *The Principles of Public Administration, OECD/SIGMA, Paris 2017 (pg.6)*
[8] *Publications are available on http://www.sigmaweb.org/publications/principles-public-administration.htm*

of quantitative and qualitative indicators focusing on both the preconditions for successful reforms (good laws, policies, structures and procedures) and the actual implementation of reforms and subsequent outcomes (how the administration performs in practice).

The concept of **managerial accountability could be considered in relation** to at least two areas:

- **Accountability**
- **Public Financial Management**

Accountability covers a broader scope and includes the organisation of the administration, openness and transparency towards the society, internal and external accountability and oversight institutions.

This chapter defines five principles which cover all these dimensions.[9]

In regard to managerial accountability, of particular relevance is Principle 1 which deals with requirements and conditions related to overall organisation of central government in order to provide appropriate internal, political, judicial, social and independent accountability.

Public Financial Management (PFM) includes key requirements, principles and conditions related to all elements of the budget cycle – from formulation to execution, including procurement, internal control and audit (internal and external).[10] This chapter defines 8 key requirements and 16 principles.
Regarding managerial accountability is the relevant key requirement, principles and conditions set under internal control part of PFM.

Principle 6 related to PFM requires that the operational framework for internal control defines responsibilities and powers, and its application by the budget organisations and to be consistent with the legislation governing public financial management and the public administration in general. Under this principle there is particularly relevant condition which requires that laws and regulations governing budgetary and treasury arrangements, EU funds management, public accounting and other PFM arrangements facilitate the development of managerial accountability through appropriate delegation and reporting.

Principle 7 related to PFM requires that each public organisation issues an internal regulation committing to implement internal control including the requirements for:

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[9] *The Principles of Public Administration*, OECD/SIGMA, Paris 2017 (pg.54)
[10] *The Principles of Public Administration*, OECD/SIGMA, Paris 2017 (pg. 70)

- establishing budgets for relevant line managers, along with delegation and accountability arrangements compatible with internal control requirements;
- establishing objectives for all senior and middle managers of the organisation;
- ensuring that management information is regularly provided to the appropriate levels of the organisation.

In addition, under Principle 7 there are also requirements where subordinate or second-level organisations exist its relationship with the higher or first–level organisation should be clearly defined in a regulation or similar written document. Also, requirements are in place that internal control procedures in public organizations should clarify responsibilities within organisations as well as ensure that risks are regularly assessed and risk-mitigation measures are implemented.

The whole text of principles and conditions related to managerial accountability is presented on the following pages, taking as a reference point the Principles of Public Administration.

Accountability

Principle 1: The overall organisation of central government is rational, follows adequate policies and regulations and provides for appropriate internal, political, judicial, social and independent accountability.

1. *There are rules governing the creation and organisation of all public bodies under the executive power at the central level; a limited number of types of organisational categories are defined; all agencies and similar bodies have a defined line of accountability to the relevant ministry to which they report on a periodic basis.*
2. *The creation of new bodies and their organisation is controlled in order to ensure their rationality and value for money.*
3. *Management units report through clear lines of accountability; managerial accountability is enhanced by empowering managers and supervisors and delegating decisions making to them.*
4. *The legal framework clarifies the legal status and degree of autonomy of the different types of autonomous or semi-autonomous bodies, as well as their accountability lines, and enhances a results-oriented management.*
5. *The ministries have assigned responsibilities for steering and controlling the subordinated agencies/bodies and have sufficient specialised professional capacities available.*
6. *Direct accountability of agencies to the parliament is an exception.*
7. *Ministries are answerable for the performance of the agencies/bodies subordinated to their ministry.*[11]

[11] *The Principles of Public Administration*, OECD/SIGMA, Paris 2017 (pg.55)

Public Financial Management

Principle 6: *The operational framework for internal control defines responsibilities and powers, and its application by the budget organisations is consistent with the legislation governing public financial management and the public administration in general.*

1. *The laws and other regulations setting the operational framework for internal control apply to all public organisations and are in line with the model of the Committee of Sponsoring Organisations.*
2. *The internal control laws and regulations are consistent with the laws and regulations governing civil and public service arrangements and organisational structures.*
3. *The laws and regulations governing budgetary and treasury arrangements, EU fund management, public accounting and other PFM arrangements facilitate the development of managerial accountability through appropriate delegation and reporting.*
4. *The management and control systems for using EU funds meet the relevant EU requirements and are in line with national internal control procedures, unless specifically explained and justified.*
5. *A clear strategy and action plan that sets out realistic steps and change management plans to develop internal control in public sector organisations is in line with the overall PFM system, and its reform plan is in place and regularly reviewed and updated.*
6. *The ministry responsible for implementing internal control has clear legal authority to issue subsidiary regulations and guidelines on internal control implementation and development.*
7. *The ministry responsible for implementing internal control reports regularly to the government, either specifically on internal control or as part of a wider PIFC/PFM progress report.*
8. *Where financial inspection exists, it is supervised by the ministry responsible for the overall state budget, is concerned with compliance, is driven by complaints and clear indication of irregularities, focuses on potential risks of fraud, corruption or major financial abuse, and does not duplicate the objective of internal audit.*[12]

[12] *The Principles of Public Administration*, OECD/SIGMA, Paris 2017 (pg. 82)

Principle 7: *Each public organisation implements internal control in line with the overall internal control policy.*

1. *Each organisation has issued an internal regulation committing to implementing internal control, including:*

- *appointing a suitably qualified finance officer at a high level within the organisation with the authority to implement internal control throughout the organisation;*
- *establishing budgets for relevant line managers, along with delegation and accountability arrangements compatible with internal control requirements;*
- *establishing objectives for all senior and middle managers of the organisation*
- *ensuring that management information is regularly provided to the appropriate levels of the organisation.*

2. *Where subordinate or second-level organisations exist:*
- *each second-level organisation meets internal control requirements for an organisation of its type and size*
- *its relationship with the higher or first-level organisation is clearly defined in a regulation or similar written document.*

3. *State-owned and municipal enterprises are subject to robust governance arrangements by their "owner" first-level organisations.*

4. *Internal control procedures in public organisations:*
- *clarify responsibilities within the organisations;*
- *ensure that risks are regularly assessed and risk-mitigation measures are implemented;*
- *ensure that policy proposals initiated by the organisations include an estimate on budgetary costs;*
- *make calculated choices between alternative ways to achieve objectives;*
- *keep financial commitments within budget limits;*
- *ensure that the use of financial resources (e.g. through procurement operations or human resource costs) in accordance with the existing budget;*
- *enable detection and reporting of irregularities (both for national and IPA funds):*
- *allow an audit trail of key financial decisions, including those relevant to IPA-funded programmes.*

5. *The CHU organises at least one annual review of progress across the public sector organisations with regard to aligning financial management and internal controls to the established legal and operational requirements.* [13]

[13] *The Principles of Public Administration*, OECD/SIGMA, Paris 2017 (pg. 84)

Points for discussions
1. Do the laws and regulations governing budgetary and treasury arrangements support the development of managerial accountability requiring the appropriate delegation and reporting? – problems and good examples. 2. Do the PIFC Strategy and Action Plan and/or PFM Strategy envisage the steps to be taken in order to implement managerial accountability? - examples 3. Where subordinated second-level organisations exist, are their relationships with the higher or first-level organization clearly defined in regulation or similar written document?

III Practical implementation of Managerial Accountability - difficulties

Representatives of the CHUs from ReSPA members during their first meeting which has been organised in December 2016 pointed to a number of difficulties involving the practical implementation of PIFC despite the fact that legal framework, manuals, guidelines etc. are in place.

This is in particular relevant for practical implementation of managerial accountability, which is not embedded in the administrative culture of public sectors managers and the countries are facing difficulties in achieving that.

Based on Croatian experiences in practical implementation of managerial accountability, below is a list of some typical difficulties that could arise when it comes to practical implementation of managerial accountability:

- lack of understanding of managerial accountability by managers or wrong interpretation that the organization can be under control only if manager can personally control every financial and business decision;

- managers are overburdened because of the need to approve all organisation's decisions and outgoing documents, which results in delayed decisions or inadequate consideration of technical issues;

- insufficiently developed mechanisms for the delegation of authorities and responsibilities which results in that employees in the hierarchy tend to avoid participation in the decision-making process because they do not see it as an integral part of the work, and poor participation or lack thereof leads to demotivation effect as an obstacle to further development professional public administration;

- inadequate organisational structures in which a clear definition of authorities and responsibilities for the execution of functions, the achievement of the set objectives and management of budget resources is hindered;

- objectives of organization not clearly defined or, if defined on an organizational level and not split through different managerial structures of the organization;

- risk assessment, which should be an important characteristic of the decision-making process by the management, is seen as a bureaucratic demand that should be undertaken by employees of the lower level, and as a result of that, the risk management is largely inefficient;

- financial plans are not sufficiently elaborated by organizational units, i.e. it is not clear how much which unit contributes to the implementation of the financial plan, or, at best, only segments of the budget are allocated to managers responsible for program, project and activity management;

- certain managers do not take part in budget planning process they are merely said what amount of budget they have available and that is why there is no link between what is expected from the managers (results) and budget available;

- lack of detailed financial analyses for new investments or for proposals of adaptations of the existing ones, which makes long-term financial assessments more difficult;

- no strategic financial planning that would allow impact assessment of the current and the new policies regarding the overall finances of the organization as well as cases when short-term decisions must be made that are known to be inefficient in the long-term;

- insufficiently developed mechanisms of monitoring over the 2nd and 3rd level budget users as well as over publicly owned enterprises.

Points for discussions

1. Practical steps taken for implementation of managerial accountability - examples
2. The difficulties encountered in the practical implementation of managerial accountability

IV Preconditions for development of Managerial Accountability

The overall development of Managerial Accountability due to its complexity requires numbers of preconditions to be in place. One of the crucial factor for development of managerial accountability is the level of development of the overall budget system.

In the input-oriented budget system the possibilities for developing managerial accountability are limited. In such budget system, the main focus of public sector managers is to ensure that the budget execution is in line with the planned budget funds and that the operations are conducted in accordance with laws and regulations. This does not mean that there are no business objectives in place, but that the planning of operations is separated from budget planning and budget preparation processes, i.e. the link between objectives and budgetary funds needed for their implementation is missing, both at the planning and the execution stage.

In the input-oriented budget system, the emphasis is on the input controls, which affects how risks to operations are perceived and how the control mechanisms and information and communication systems are developed. Risks are perceived in terms of whether there are sufficient funds for the planned activities or not, while the control mechanisms are primarily focused on ensuring that the execution does not exceed the approved funds, and the financial reporting serves as a tool for monitoring the execution compared to the plan and for pointing out the inconsistencies.

In such a budgetary system setup, internal financial controls should be developed to that extent which ensures legal and regulatory compliance of the operations and use of budget funds in order to ensure fiscal discipline.

It is far more easier to understand the concept of managerial accountability and risk management process in the result oriented budget system where the public sector managers should be accountable not only for *how much is spent*? but rather for *what have been achieved for the money spent?*

The result-oriented budget system puts a different set of requirements before the management in the public sector, which is the achievement of the set objectives and the expected results for the invested budget funds. This approach creates prerequisites for the development of comprehensive managerial accountability, as, in addition to the legality and regularity-related requirements, it requires economy, efficiency and effectiveness in the use of budget funds.

In this section, based on Croatian experiences are listed some of the typical preconditions that can further support development of managerial accountability:

- Setting up adequate organizational structure that supports the implementation of general functions of budget users and implementation of defined strategic objectives;

- Setting up clear objectives and performance indicators for every organizational unit and field of operations;

- Linking strategic and operational planning with financial plan;

- Ensure the financial plan is properly set up, primarily, by analyzing and reviewing the managers proposals, i.e. not only summarizing what managers tell they need;

- Allocating the approved financial plan to the specific level of organizational unit that are authorized to incur expenses and manage income, allowing the budget to be available to the managers that are responsible for program, project and activity management;

- Insure that the delegated authorities and responsibilities within the organizational structure for implementation of set objectives and management of budget funds allocated to organizational units for program, project and activity implementation within their jurisdiction are formally set, that those authorizations are regularly checked-up, and improved as circumstances change;

- Setup of reporting lines in accordance with the authorities that are delegated with the aim of monitoring results achieved with funds awarded for programs, projects and activities.

- Integration of risk management into planning and decision-making processes;

- Setting-up efficient and effective control activities which will insure effective management of income, expenditures, assets and liabilities;

- Setting-up an efficient and effective information and communication system that will allow regular and meaningful management information on costs, efficiency, quality and results achieved in relation to the objectives to allow managers to assess value for money or take corrective actions when exceeding occur due to increased costs or reduced income;

- Monitoring and assessment of adequacy, effectiveness and efficiency of the set financial management and controls system as well as improving in accordance with level of development and implementation;

- Ensuring a clearly defined method of cooperation and reporting system among budget users of the first level and budget users under their competence;

- Setting up and maintaining effective working relations with the manager in charge of finances and budget.

Points for discussions
1. Level of development of budget system and its impact on possibilities for development of managerial accountability. 2. The adequacy of the organisational structures of budget organisations for implementation of managerial accountability – good and bad examples 3. Participation of line/operational managers in the budget cycle processes (planning, execution, accounting)

V Role of Finance Units in supporting Managerial Accountability

The development of financial management and control in a way that puts emphasis on the results achieved, economy, efficiency and managerial accountability for the financial effects, also affects the role of the organisational units in charge of finance.

Managers should bear the main responsibility to make sure that: monies are being spent as planned in the budget; liabilities do not exceed the budget; resources are spent purposefully in support of organisational achievement of objectives and that all this is performed effectively and efficiently in the in the context of good governance.

Finance units are not and may not be responsible for budgets across the organisational units and programmes. Neither can they be responsible for the achievement of programme results. This is the responsibility of managers in charge of implementing such programmes, projects and activities. However, Finance units are tasked with providing support to managers in assuming their managerial accountability for financial effects.

Development of managerial accountability will require development of the role of finance units in budget organizations from traditional “controller” to “advisor” for managers.

Finance unit in budget organization should take the role of coordinator for development of internal control where this coordination role implies the following activities:

- developing and running budget processes in accordance with legal regulations, taking account of the specificities of the given budget organization;
- making sure that the delegated functions, authorities and responsibilities within the budget processes have been clearly defined and adhered to;
- developing the accounting systems in order to generate information on costs, revenues, assets, liabilities and results achieved;
- monitoring the overall financial performance during the budget year; in case of any discrepancies, they should be substantiated and approved by an authorised person, i.e. action should be taken to get the budget “back on track”;

- cooperation with second- and third-level budget users, if any;

- ensuring that the reports required by the Ministry of Finance reflect true and fair situation in the institution.[14]

Due to complexity of the activities required from finance units, their adequate organisational status is needed as well as expertise and competence of finance staff to be able to perform complex and demanding coordination role. In addition, providing advices and support to managers will require wide range of complex activities that finance units will need to perform, such as:

- ensure financial leadership within the organisation so as to make sure that all managers take account of financial information for their decision-making purposes;
- ensure that financial resources have been adequately considered in the design of strategic objectives and prioritisation, when making strategic documents;
- providing advice to other managers on how they can use financial and performance information to allow them making an assessment of the most adequate service or activity delivery mode;
- ensure that managers get involved in the process of budget/financial plan preparation;
- ensure that managers have information needed for budget preparation at hand and that operational and environmental changes are adequately reflected in such budgets;
- scrutinise the budget requests submitted by managers in terms of their compatibility with the objectives and priorities of the organisation and their alignment against the Ministry of Finance's requirements;
- informing managers of their budget allocations on time;
- ensure that individual managers control the expenses, revenues and liabilities to make sure that they are consistent with the planned budget, i.e. supervise the extent to which managers monitor the actual implementation versus the allocated budget;
- supporting managers in reconciling conflicting interests, e.g. excessive expenditure versus available resources;
- considering and scrutinising actual data from the previous periods to allow monitoring of efficiency and effectiveness and to indicate the areas in need of more detailed analyses to managers;
- supporting managers by providing them with accurate and timely financial advice on value for money;
- considering proposals for new activities and investments in order to make sure that the associated costs and revenues have been taken into account, i.e. make sure that

[14] *Financial Management and Control Manual, Ministry of Finance of Republic of Croatia, Zagreb, 2012 (pg. 47)*

there is adequate financial planning and supervision over investment projects, irrespective of whether it involves a new project or maintenance.[15]

The above presented list of activities shows that development of managerial accountability requires also significant efforts to be invested for strengthening the capacity of financial profession in the public sector in order to deal with the new and challenging role.

Points for discussions
1. Does the legal framework for PIFC define coordinative role of finance unit for development of internal control on the level of budget organization and what does the coordinative role include? – activities of finance units in development of financial management and control 2. Organizational position and capacity of finance units to implement the coordination role and to support managers in dealing with managerial accountability.

VI Risk management as a tool to support Managerial Accountability

As illustrated among the necessary preconditions and under the role of finance departments above, risk management is an inevitable element of an effective internal control system that supports managerial accountability. The same is recognized under Principle 7 of the SIGMA Principles of Public Administration. ReSPA Members and Kosovo* have been developing and introducing more systematic approach to risk management as a component of the internal control system. A link that if often overlooked is the importance of risk management for full discharge of managerial accountability.

Risk management is, *inter alia*, a tool helping the management to anticipate changing circumstances and react to them. It should be considered as an integral part of the management process that enables managers to:

- anticipate unfavorable circumstances or events that could prevent the budget users from achieving their objectives;

- direct limited resources towards the key areas of operation and associated risks

Therefore, it is very important that risk management is developing as an integral part of the planning and decision-making process. Risk management should be viewed as a systematic and continuous process of identifying, assessing and monitoring risks, taking into account the

[15] *Financial Management and Control Manual, Ministry of Finance of Republic of Croatia, Zagreb, 2012 (pg. 47)*

objectives of budget users, and taking the necessary actions, especially through the system of financial management and control.

A certain professionalization of the risk management process is required, to be reflected primarily in a clearly determined risk management methodology, documentation of data on risks, their type, likelihood and impact, in the establishment of risk registers, introduction of a risk reporting system, the creation of a risk management strategy, etc.

Unless risks are managed in terms of their likelihood and impact on achievement of the organization objectives, it is unlikely that managers will be able to take appropriate action in response to both threats and opportunities. In the traditional approach to management (narrow views on control), the principal risks were contained to staying within the allocated appropriation to and ensure legality and regularity of transaction. Under the modern, wider approach to management which focuses on achievement of objectives, the risks to efficient and effective use of public resources multiply. Without a robust risk assessment and management system in place, achievement of the objectives is jeopardized, and the manager itself is under the risk to fail to deliver on the entrusted responsibilities since her/his choices and actions were taken but not taking into consideration risks and measures to mitigate them.

Points for discussions

1. Steps taken for the practical implementation of risk management process - examples
2. Difficulties encountered in the practical implementation of risk management
3. Steps planned to be taken for improving the risk management process