



MINISTRY OF FINANCE
OF GEORGIA

Public Internal Financial Control Reform in Georgia

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Public Internal Financial Control (PFC)



concept, which was developed by the European Commission , for developing countries in order to Public institutions should be able to improve their internal control systems Modern By laying down governance principles, according to international standards and best practices.

From “traditional administration” towards modern management



Drawback of "traditional administrative approach".



- Centralized administration:
 - bureaucratic decision-making processes;
 - lack of delegation of responsibility to lower levels;
 - low involvement of employees in the process of achieving the common goal ;
- Weaknesses of monitoring:
 - Weak system of accountability / or non-existence;
- less attention to risks and risk management in the process of achieving goals;
- Emphasis on compliance and legality:
 - Not assessing whether it was efficient and effective ;
 - Not performance evaluation ;



Effective management means

- Setting Clear Objectives;
- Having such Internal Control environment in the organization, which ensure achieving objectives (“financial control” is one of the aspects of Internal Control system);

Objectives should be achieved in given timeframe and given budget, with existing standards, in compliance with the existing laws and regulations.

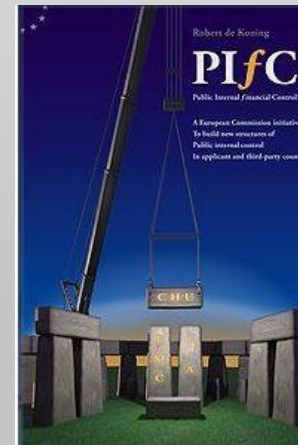
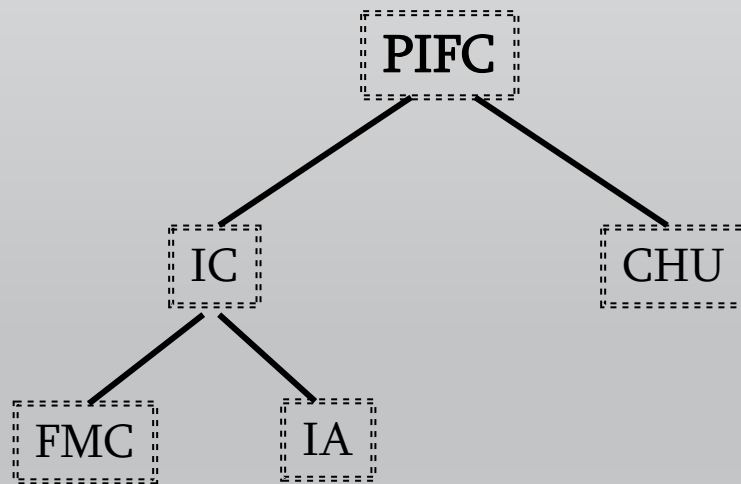
“**Internal Control** is established in order to achieve organizational objectives”.

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PIFC has three main pillars:

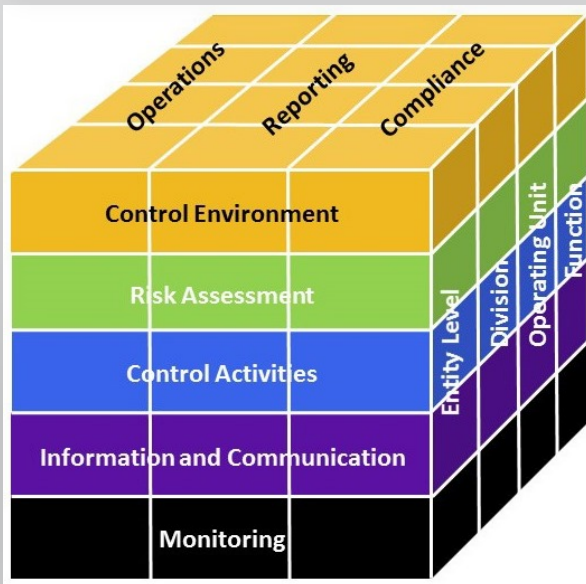
- Management and Management controls - (FMC)
- Internal Audit
- PIFC system coordination – Central Harmonization Unit (CHU)



Stages of implementation of financial management and control system



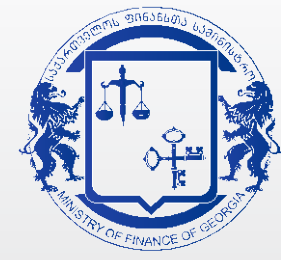
COSO model



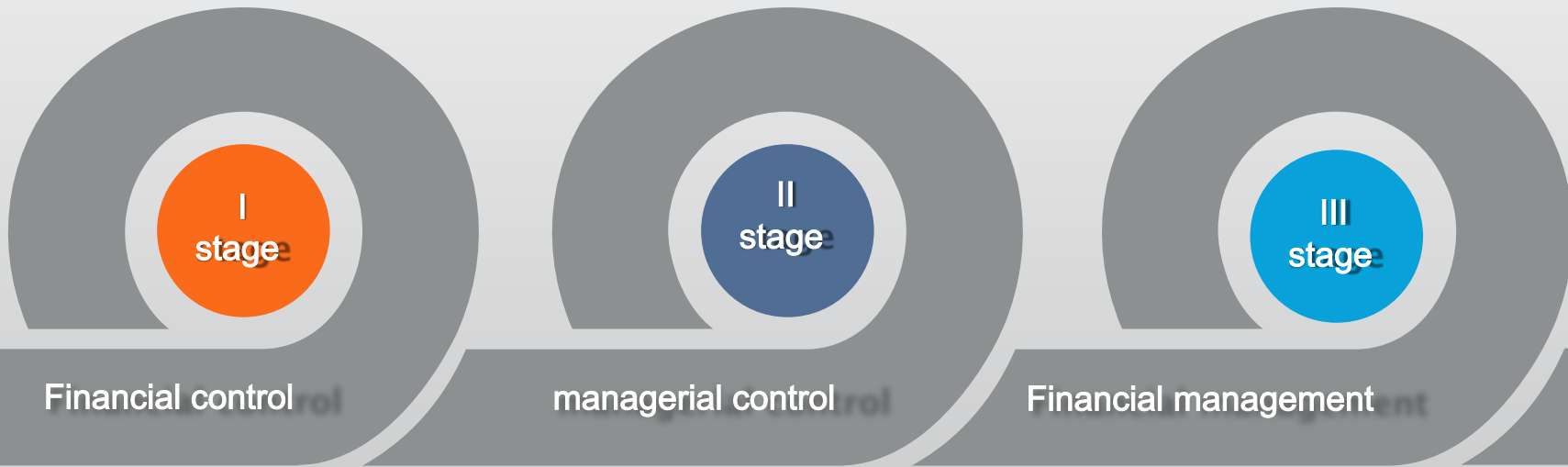
3 stage approach -
3 Stage Approach

VS

- Financial control
- managerial control
- Financial management



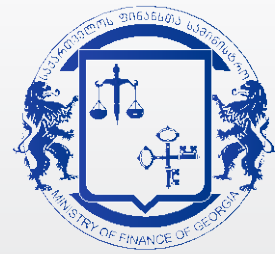
Instructions on the rules and procedures for establishing the financial management and control system



- delegation of authority;
- increasing the responsibilities of relevant managers;
- Raising the awareness of various leaders

- improvement of the structure of managerial responsibilities defined in the first stage;
- increasing the quality of delegation;
- Increasing the involvement of operational units in the process of developing effective control mechanisms, risk management and reporting.

- identification of cost centers;
- financial analysis;
- Strategic financial management.



The objective of FMC is:

- Improvement of **management and control** processes in the public sector;
- Managing State expenses and Revenues in accordance with the objectives of the institution; Legally, economically, efficiently and productively;
- Improving the managerial accountability system;
- establishment/strengthening of the reporting system;



Internal Audit

Article 4 PIFC Law of Georgia

Establishing internal audit units in certain institutions:

Internal audit units shall be established in:

- The Ministries of Georgia;
- The Ministries of the Autonomous Republics of Abkhazia and Adjara;
- Legal entities under public law, the list of which is approved by the Government of Georgia
- City Halls of municipalities – on the basis of a decision of a respective Sakrebulo.
- A legal entity under private law (in which the State holds more than 50% of shares or ownership interest)

The draft Charters of the internal audit units of the institutions shall be prepared in consultation with the Central Harmonisation Unit.

Internal Audit certification Program:



- 4th module:
 - Program Budgeting
 - Public Administration Reform;
 - Accounting and reporting regulations based on accrual based IPSASs
 - State Procurement



Thank you very much!

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