

LIQUIDITY FORECASTING AND RESOURCE MANAGEMENT: KEY FACTORS FOR EFFICIENT REVENUE AND EXPENDITURE CONTROL

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Abstract

International bodies are encouraging Albania to continue financial sector and budget reform, address arrears, improve public investment and management of fiscal risks. This research paper will overview the challenges and the improvement of legislation of public finance in Albania, transparency and public involvement are essential for improving the country's financial situation.

Financial analysis methods, revenue management, and compliance with ethical and legal standards are crucial for public organizations. However, financial management in public organizations faces unique challenges due to government operations' complexity, transparency, and limited resources.

Budget transparency has increased, but challenges remain in the transparency of financial management of public organizations, especially local governments. The report also highlights the need for clearer and more transparent assessment of public investment projects and PPPs to improve the efficient use of public resources and reduce fiscal risks. Liquidity forecasting and resource management are also crucial for efficient revenue and expenditure control.

To ensure sustainable economic development and financial stability, the Albanian government should develop a medium-term strategy for improving public finances, strengthen the management of public investments, improve liquidity forecasting and resource management, control arrears, improve budget transparency, increase the role of the Ministry of Finance reduce fiscal risks from PPPs, and conduct a detailed analysis of large contingent liabilities. These recommendations aim to address challenges and improve financial management in Albania, ultimately improving the country's financial stability and economic development.

Keywords: economic development, public finance, investments, transparency, management.

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Introduction

Financial control in the public sector is an integral process involving management and personnel to address risk and ensure the achievement of objectives such as efficient, effective operations, accountability, compliance with laws, and resource safeguarding. This dynamic process adapts to organizational changes, involving all levels of management.

Improved Governance and Accountability Structures Frameworks: this hypothesis aims to analyze the relationship between accounting, auditing, and public finance management in the framework of increasing transparency and accountability. Since the strengthening of accounting standards and practices within public financial management systems leads to more accurate financial reporting, the hypothesis suggests that auditing serves as a mechanism to verify the accuracy and reliability of these financial reports, assuring stakeholders, including the public, investors, and government oversight bodies. Transparency in public finances and accountability foster trust in the general public, leading to better governance and a more effective allocation of financial resources.

Harmonization of Local Policies to Promote Financial Transparency: This hypothesis is used to evidence the theory of guaranteeing financial integrity through the harmonization of regulatory frameworks, it is necessary to connect accounting, auditing, and management of public finances. Their regulatory harmonization increases confidence in public financial systems, which aims at stability in the economy. Governments can improve the reliability and comparability of financial information by providing better oversight and evaluation of public finances and guiding stakeholders and policymakers to make more informed decisions. The analysis of this hypothesis will highlight that standardized audit processes are carried out to support financial management as well as help to detect and mitigate irregularities.

Accounting information plays a crucial role in managing the public finances of a local government. It involves identifying funding sources and analyzing basic and capital expenditures. Local governments receive funding from local taxes, central government transfers, and other general revenue. This structure clearly shows their finances and affects the community's care and priority. The government's finances are affected by these sources. Also, Financial management in an local government includes strategic planning, implementation and control of various methods and techniques to ensure the efficient use of financial resources, the achievement of financial objectives and the preservation of the financial health of the organization.

Literature review

The concept of management has evolved significantly over the years, expanding beyond its traditional roles and functions. In its modern form, management encompasses a wide range of principles, approaches and responsibilities that extend far

beyond the boundaries of a business organization. This expanded management concept reflects the dynamic and complex nature of today's globalized and interconnected world. Management is no longer confined to business schools or corporate boardrooms. It has become an interdisciplinary field that is supported by psychology, sociology, economics, ethics and even environmental science. Managers today need a comprehensive understanding of the various factors that influence decision-making and outcomes. Modern management emphasizes strategic thinking and planning. They are expected to set long-term goals, adapt to changing environments, and make informed decisions that align with the organization's mission and vision. Strategic management is about staying competitive and sustainable in an ever-evolving world. Beyond shareholders, modern management recognizes the importance of multiple stakeholders, including employees, customers, suppliers, communities and the environment. Balancing the interests and needs of these different groups is essential for long-term success.

Organizations use risk management methods to identify, assess and mitigate financial risks that may affect their operations. Risk assessment tools, scenario analysis and risk matrices help quantify and manage risks related to market volatility, credit exposure, interest rates and other variables. Organizations evaluate various financing methods to raise capital, including issuing debt (eg loans, bonds) and equity (eg equity offerings, equity entrepreneur). The choice of financing method depends on factors such as the cost of capital, risk tolerance and capital structure objectives. (World Economic Forum 2021). Embracing FinTech methods involves the use of technological solutions such as software financial, data analytics and blockchain for efficient financial transactions, reporting and risk management. (Sharpe, W. F. (1964). Effective financial management combines these methods and techniques to create a strategy comprehensive that aligns with an organization's goals and ensures the well-being and its financial stability. It requires continuous monitoring, analysis and adaptation to successfully navigated the complexities of the financial landscape. Public organizations are increasingly adopting FinTech solutions for transactions efficient financial, payment processing, data analytics and fraud detection. These technologies improve financial management and transparency. Poister, T. H. (2019).

Methodology and data

The methodology examines the evolution of statutory auditing regulation, comparing the regulatory structures, revealing increasing similarity for standardized practices, and relies on a qualitative analysis of publicly available documents and legislation. Analyzing the procedures based on the law a general review of finances instead of a statutory audit for public institutions increases an administrative burden. Still, its practical implications are significant, as regulation is crucial for financial market functioning and public information.

In the end, this research study reveals interests and perspectives that could benefit the international audience in reducing the accounting and auditing obligations

procedures, examining the due process of accounting standard-setting, and focusing on stakeholder and jurisdictional influence.

Structural reforms, such as the economic market and financial legislation are essential for sustainable economic growth in Albania. Implementing these reforms leads to increased awareness and efficiency in financial resource use. Regarding the financial management of public resources, it is often recommended by international organizations, that Albania follows the European Union's principles to develop continuous training programs for public accounting and auditors.

The analysis is based on the general report from the Ministry of Finance and Economy in 2022, where data on the financial management of public organizations in Albania will be collected and analyzed in the general reports for the „Report on the Functioning of the Internal Public Financial Control System in Albania. General Government Units for 2021“ (Source: <https://financa.gov.al/wp-content/uploads/2023/08/Raporti-KBFP-2021-Final.pdf>). How will the information be collected from the „MEF Strategy for the Management of Public Finances Albania 2019-2022“ (Source: <https://portavendore.al/wp-content/uploads/2019/12/Strategjia-e-MFP-2019-2022.pdf>), for the challenges, strategies and effectiveness they have given in practice. These elements will provide us with the necessary information on the financial management of public organizations.

Research results and comments

The methodology describes the approach for analyzing the financial management of local government. The analysis will mainly focus on the „Report on the Operation of the Internal Public Financial Control System in the General Government Units for 2021“ published by the Ministry of Finance and also address „The Strategy for the Management of Public Finances in Albania 2019-2022“, and to see after the analysis, the applied strategies and their effectiveness. The lack of professional capacities and incomplete audit coverage of local self-government units declares them as high-risk units, affecting their performance and administration.

The Internal Audit Committee is an independent body that monitors and provides advice to the holders of public entities regarding internal control systems. However, the creation and operation of audit committees was implemented only in 6 ministries and 1 independent institution during 2021. The creation of audit committees is at the discretion of the incumbents and their absence is a consequence of the lack of awareness of their importance. Also, their effectiveness is affected by the lack of auditing expertise. The audit committees' reports for 2021 identified several challenges and recommendations for improvement. These challenges include planning audits, quality of audit recommendations, quality assurance program, remuneration and remuneration system for auditors, planning information technology audits and performance audits. The Internal Audit Committees conclude that, in general, the audit activity is in accordance with the regulation, but requires improvements in some specific areas for which

relevant recommendations have been given. Holders of public entities should support internal audit structures more. The audit activity is based on the Strategic Plan 2021-2023 and the Annual Audit Plan of each internal audit unit in the public sector. The planning is done on the basis of assessments of risk factors and trends identified by the internal audit units (IAB). The consolidated plan is a tool used by the Internal Audit Harmonization Directorate (DH/AB) to monitor the planning of the audit activity of each unit and address the problems that appear in the planning. For 2021, 1111 audits were planned, but only 1061 of them were carried out, represented by the following data.

Table 1. Completed audit engagements for 2021

Type of Auditing	Number of Audits
Total of Audits	1061
Security Services	384
Counseling Services	19
Compliance audits	58
Performance audits	5
Financial audits	525
Information technology audits	13
Combined audits	57

Overall, international bodies are cautious and encourage Albania to continue with financial sector and budget reform, address arrears challenges and improve public investment and PPP management, while addressing fiscal risks in a more sustainable manner. efficient. Budget transparency and public involvement in budget processes are also essential for improving the financial situation in the country. Financial analysis methods help local governments assess financial health and performance. Techniques such as ratio analysis, trend analysis, and financial statement analysis provide insights into profitability, liquidity, solvency, and efficiency. These analyzes guide decision making and identify areas that require attention or improvement. Public organizations generate income through taxes, fees, fines and other sources. Revenue management involves optimizing revenue collection, preventing fraud and ensuring that revenue sources are used to support public services effectively.

Compliance with ethical and legal standards is paramount in the management of public finances. Public organizations must comply with laws and regulations governing financial operations and reporting. This includes ensuring that public funds are used ethically and transparently.

Financial management in public organizations is fraught with unique challenges stemming from the complex nature of government operations, the need for transparency and accountability, and the often limited financial resources available. These

challenges, if not managed properly, can significantly hinder public organizations in pursuing their objectives and effectively providing essential services.

This control included four main categories:

1. Compliance with applicable laws and regulations: Ensuring that the public entity meets all legal and regulatory requirements.
2. Reliability of financial and managerial reporting: Ensuring that financial reporting is accurate and reliable and that management is efficient.
3. Effectiveness and efficiency of operations: Ensuring that operations are efficient and effective in achieving the organization's goals.
4. Asset Protection: Ensuring that all assets of the organization are protected and carefully managed.

Institutional relations in the public sector have a significant impact on financial management and control of public resources. An integral approach to the development of Financial Management and Control of the public sector should consider the fact that public units are interconnected and that this interconnection has a profound impact on the development of the MFK at the general level. In the public sector, there are examples of interconnected units, including the ministry and its subordinate agencies, which are created to manage and handle certain activities related to the area of competence of the respective ministry. In this context, we can also mention the municipalities and their subordinate units, which influence the implementation of policies and financial planning in various fields such as health, education, culture, and others.

Conclusion

The analysis of the report of the Ministry of Finance (MFE) on the management of public finances in Albania shows some key conclusions:

Reforms in the MFE: The report mentions that the MFE underwent restructuring in 2018 and is currently updating public finance planning based on the Mid-Term Review of the MFE Strategy 2018. This shows an effort by the government to improve financial management and budget planning.

Improvements in fiscal compliance: The report shows improvements in fiscal compliance, including a section on fiscal risks and a list of Public-Private Partnerships (PPPs) in budget proposals. This is a positive step to reduce fiscal risks and ensure that budgets are handled in accordance with the law.

Budget transparency: The report assesses the increase in budget transparency with the timely publication of key budget documents, including the year's budget and the list of public investments. This step is key to increase the credibility and accountability of the government to the citizens. However, he identified challenges in the transparency of financial management of public organizations, especially local governments.

Management of public investments and PPPs: The analysis shows the need for a clearer and more transparent assessment of public investment projects and PPPs. This

is a key aspect to improve the efficient use of public resources and reduce fiscal risks arising from PPPs.

Liquidity forecasting and resource management: Improving liquidity forecasting and government resource management is an important challenge. This aspect is key to ensure that the government has sufficient revenue and controls its expenditure efficiently.

In conclusion, the report shows the positive efforts of the Albanian government to improve financial and budget management. However, there are major challenges to address, including increasing arrears and managing public investments. To ensure sustainable economic development and financial stability, it is important that the government continues to work on improving these areas of financial management.

Based on the analysis of the report of the Ministry of Finance and Economy (MFE) on the management of public finances in Albania, we can propose some important recommendations for improvement:

Development of the MFP medium-term strategy: It is important for the government to draft a medium-term strategy of the Minister of Finance and Economy (MFP) that includes specific goals and measures for improving the management of public finances. This strategy should be updated and regularly reviewed to ensure compatibility with the country's development goals.

Strengthening the management of public investments: The government should develop a common and transparent process for the evaluation and selection of public investment projects and public-private partnerships (PPP). This process should ensure that projects are supported by robust economic and financial analysis and that risks are limited.

Improving liquidity forecasting and resource management: It is necessary to improve liquidity forecasting and government resource management. The government should have a better definition of possible sources of income and expenditure and build strategies for managing liquidity more efficiently.

Control of arrears: It is important to strengthen the prevention and control of government arrears. This process should include the reimbursement of missing obligations, including VAT and payments to the central and local governments for the construction of infrastructure.

Improving budget transparency: Improving budget transparency should continue to be a key objective for the government. Budget data, including the year's budget, public investments and PPPs, should be published in an open and accessible manner for the public and experts.

Increasing the role of the Ministry of Finance and Economy: The government must consolidate decision-making processes and strengthen the Ministry of Finance and Economy to efficiently manage public investments and PPPs. This step can help reduce fiscal risks and improve the coordination of investment projects.

Reduction of fiscal risks from PPPs: The government should revise and amend the legislation of PPPs to improve supervision and control of the fiscal cost of these

projects. It is important to ensure that PPPs are compatible with the country's development objectives and that fiscal risks are monitored and mitigated.

In-depth analysis of large contingent liabilities: The government should conduct a detailed analysis of large contingent liabilities, including those of state-owned utility companies and local governments. This step can help identify and manage potential financial risks.

These recommendations are undertaken to address challenges and improve financial management in Albania. The government's efforts to implement these recommendations will help improve the country's financial stability and economic development.

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