UDC: 35.073.52:336.146(497.115)"2021/2023"
Professional paper

THE IMPACT OF AUDITING ON THE EFFICIENT MANAGEMENT OF PUBLIC ASSETS

Ramadan GASHI[1], Alma KASTRATI[2] Ana KAPAJ[3]

[1*]*UBT – Agricultural University of Tiran*
[2] *UBT Agricultural University of Tirana*
[3]*UBT – Agricultural University of Tirana (email: amane@ubt.edu.al).*
[*]*Corresponding author e-mail: ramadan_gashi@hotmail.com*

Abstract

Auditing is an important process that improves the governance and management of public assets, in the interest of budget organizations and citizens, and through quality audits, strengthens accountability in public administration for the effective, efficient and economic use of assets. Assets constitute a very sensitive category, where inefficient management can lead the organization to significant financial and operational losses. In this sense, auditing helps identify weaknesses, strengthen internal control and increase accountability in the administration of public assets.
The research assesses the impact of auditing on efficient and effective financial management, with a particular focus on public asset management. By assessing the level of implementation of recommendations in asset management, identifying key challenges in improving asset management and analyzing the impact of auditing on increasing accountability and transparency in asset management. The research is based on an analytical and comparative approach, considering legal requirements, international auditing standards, annual financial reports and progress reports on the implementation of recommendations. Comparative analysis methods will be used over the years to understand how audits have influenced efficient and effective asset management.
The research has highlighted the direct impact of auditing on improving internal control mechanisms and strengthening accountability that have contributed to better management of public assets, considering the level of implementation of recommendations, which is a strong indicator of efficient and effective financial management.

Keywords: Asset audit, asset management, implementation of recommendations, internal control, financial accountability.

Introduction

Asset management is one of the most important aspects of financial management in the public sector, as it is an essential process for ensuring the efficient administration of assets and resources belonging to the state.

Government asset management is crucial to ensure the optimized use of public resources, minimizing costs and increasing efficiency. The asset management process involves the administration of the life cycle of various assets, from acquisition and use to maintenance and disposal.

To achieve these objectives, a key role is played by auditing, which evaluates and monitors asset management activities to ensure that they comply with legal rules and norms and to identify opportunities for improvement.

The audit process helps identify weaknesses, non-compliance with regulations, and weaknesses in internal controls related to asset management. Implementing audit recommendations directly can lead to significant improvements in aspects of asset registration, inventory, and storage.

Literature review

This paper elaborates on financial management in the public sector and the basics of financial reporting. In particular, it will discuss the management of public assets, what they represent and how they should be managed. It will further elaborate on their preservation through the establishment of internal controls, the internal audit instrument and also the final link of control, which is the external audit.

Financial management in the public sector is a very important aspect for the security and transparency of state spending. This management includes the process of planning, organizing, controlling and monitoring financial resources used by state institutions and public agencies. The main objective is to ensure that public funds are used efficiently and effectively to achieve goals and benefits for citizens.

"Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service objectives." (CIPFA, Public Financial Management-Volume 1, 2010)

Financial management encompasses all components of a country's budget, both upstream (including strategic planning, medium-term expenditure framework, annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight).

Public sector accounting is an umbrella term which, depending on the particular context, refers to different accounting systems used by many public sector entities – general government (central and local) as a whole and public enterprises (PEs). Two broad sets of accounting standards are applicable to public sectors worldwide, depending on the nature of the accounting entity – International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards Public (IPSAS). SOE-s, whose establishment and operations are very similar to those of companies in the private sector, are required to apply full accrual accounting methods under IFRS, while all other public sector entities are encouraged to apply IPSAS. (Mihaela Grubpisic, 2009).

Public assets, including immovable and movable assets, represent important resources for public administration. Proper asset management is essential to ensure the efficiency and financial sustainability of public institutions. Good asset management practices require accurate recording, complete inventorying and good preservation of assets, to avoid losses and improve performance.

Studies highlight the importance of using modern asset management information systems, which can help improve management efficiency and asset monitoring. Research has also shown that poor asset management can lead to significant financial losses and violations of laws and regulations.

Public asset management is described as "the direction and supervision of an interest in property, with the aim of securing the optimum return. This return need not always be financial, but may be in terms of social benefits, status, prestige, political power or some other goal or set of goals." (Thorncoft, 1965).

The need for recognition of public assets and efficient use of public assets in many countries, both at the level of central and local authorities, has been driven primarily by the idea that the government and the public should have a complete overview of the country's assets and that the Government is responsible for managing public resources on behalf of all its citizens.

A sound Financial Management and Control (FMCC) system encompasses the overall activity and includes the entire organizational structure of the public entity. However, the essence of FMCC is related to the management and control of income, expenses, assets, liabilities, tendering and contracting procedures, and the way the entity operates. By the term internal control, we mean the instruments that help managers be more effective and efficient, while managing to avoid major risks such as: cost overruns, operational failures, and legal violations (Ministry of Finance, 2020).

The internal control system is a process in an organization, carried out by its personnel at various levels of governance and management, and serves to support the achievement of its operational, reporting and compliance objectives.

There are five components of the internal control system: - control environment, risk assessment, control activities, information and communication, and monitoring. They interact with the entity's objectives, its structural elements, and operating processes (COSO Integrated Internal Control Framework, 2013).

The basis of accounting and financial reporting of the Kosovo budget according to the LPFMA is the cash basis. Cash management is organized in the form of a single Treasury account. The single Treasury account is a system of bank accounts used for the collection of revenues and the realization of expenditures, which are managed and controlled by the Treasury. Budget organizations have delegated responsibilities for the collection of revenues and the realization of expenditures.

Also, based on the MF Regulation No. 01/2017, they are obliged to maintain separate accounting records on the basis of which they prepare their financial statements and report to the MFPT/Treasury. The annual financial report for the state budget consists of three main statements together with explanatory notes and other annexes, which are prepared by the Treasury, based on the SIMFK records (Ministry of Finance P. d., 2017).

The Ministry of Finance, Labor and Transfers/Treasury is responsible for preparing and fairly presenting the Annual Budget Financial Report on behalf of the Government in accordance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting under the Cash Basis of Accounting, and is responsible for the application of internal controls.

Legal and reporting basis of assets in the Kosovo Government

The MoF Regulation No. 02/2013 on Asset Management in Budgetary Organizations obliges all organizations to maintain non-financial asset registers that are constantly renewed or updated, depending on new purchases/acquisitions or systematic review of their usage status.

Non-financial assets according to accounting classification are divided into:

Capital assets that have a useful life of more than one year, have a financial value of over €1,000 and ownership and control of the benefits remain with the OB;

Non-capital assets that have a useful life of more than one year, have a financial value of less than €1,000 and ownership and control of the benefits remain with the OB; and

Stocks or spare equipment and office supplies. (Finance, 2013).

Asset management is carried out through two centralized systems: the KFMIS accounting register as an integrated system within the MFPT, where capital assets worth over €1,000 are recorded, maintained, evaluated and reported, as well as the "E-asset" system/application, which is an integrated system within the MIA, where all budget organizations must record, manage and report on non-capital assets under €1,000 and stocks/spare equipment and office supplies.

Methodology

During the research, the comparative and quantitative data approach method was used, and statistical results were extracted from these data. The data were collected from official reports, and the Annual Audit Report on the execution of the Budget of the Republic of Kosovo (BRK) was analyzed, presenting the figures of errors in the presentation and reporting of non-financial capital assets over 1,000, non-capital assets under 1,000 and stocks for the last three years.

Also, this paper will address the aspect of the main findings in the field of wealth for the last three years, presenting the trend of the number of institutions that have resulted in findings in the field of wealth over the years.

It will be seen how the audit has influenced the reduction of errors over the years in terms of financial reporting of assets and findings in the area of assets, thus reflecting the ultimate impact on improving asset management processes.

The role of auditing in the efficient and effective management of government assets

Internal audit

In addition to ongoing monitoring, those charged with governance may use internal audit to assess the internal control that exists within a public entity. Internal audit is an activity that provides objective assurance or advice, designed to add value and improve the operations of a public entity. The internal audit function plays an important role in monitoring the implementation of internal controls within an entity. (ISSAI 2610) (INTOSAI).

"Internal audit" is an independent and objective advisory activity providing reasonable assurance that aims to increase the value and improve the functioning of the public sector entity, assisting the entity in meeting its objectives by providing systematic, disciplined approaches to assess and improve the effectiveness of risk management, control and governance processes (experts, 2020).

External audit

Auditing is an independent process that aims to evaluate the financial and operational data of an organization to ensure that they are in accordance with established policies and procedures. Auditing contributes to strengthening internal control, enabling the identification of weaknesses and deficiencies in the management of assets, and ensuring that these assets are used efficiently and in compliance with the law.

Many studies have identified the role of auditing in preventing corruption and misuse of public funds. In this context, auditing is a powerful mechanism that helps identify and correct deficiencies in asset management practices, especially in the public sector.

Recognizing the great importance of the proper use and preservation of public money and assets, various global societies have historically given special importance to the oversight and review of its management processes. Officials responsible for the administration of money must ensure that taxpayers' money is spent in compliance with the legal framework, efficiently, effectively and for the benefit of citizens. Meanwhile, taxpayers have the right to be informed about where and how their financial contributions are being spent.

In this context, each country, in accordance with the constitution, mandates the relevant economic and financial control institution which provides assurance to the Assembly and citizens that public money is being spent properly.

The role of the Auditor General is to provide a basis for closing the accountability process between the Assembly and the Government for the implementation of the state budget during the year. This is achieved by applying the principles of managerial accountability at all levels of government, including ministries, municipalities, independent institutions and public enterprises.

In Kosovo, the Auditor General is the highest institution of economic and financial control in the country and the National Audit Office is an independent institution, which assists the Auditor General in carrying out his/her duties.

The reports of the National Audit Office directly promote accountability and provide a solid basis for holding managers of any budget organization to account. In this way, we increase confidence in the spending of public funds and play an active role in ensuring the interest of taxpayers and other stakeholders in increasing public responsibility.

The role of auditing in the management of government assets

Auditing plays a key role in the management of government assets, through:

Ensuring compliance with rules and standards: Regular audits ensure that asset management practices are in line with relevant laws and regulations, guaranteeing that they are being managed according to established guidelines.

Increasing transparency: Audit processes provide a high level of transparency by assessing how public funds have been used for asset management and ensuring that financial data is accurate and reliable.

Improving efficiency: The audit identifies opportunities for improving the use of resources, recommending measures that can reduce losses and increase the efficiency of asset management.

Improving public administration: The audit helps strengthen the capacity of public administration to manage assets more efficiently.

Identifying asset management weaknesses and risks: The audit reveals asset management weaknesses, including inadequate asset maintenance and excessive spending, which increase the financial risk to the government.

Reducing errors and corruption: Audit reports help identify and stop abuses and corruption in asset management, increasing accountability and preventing misuse of public funds.

Improving planning and budgeting: Audit findings help governments improve asset management planning and budgeting, enabling more efficient use of resources and reducing financial losses.

Supporting the creation of new policies: Audits provide recommendations to develop and review government asset management policies, enabling more structured and controlled management of resources.

Asset life cycle optimization: Auditing helps identify opportunities for optimizing the asset life cycle, including periods of use, their maintenance and the right moments to replace them, which has contributed to reducing harmful costs.

Improvement of maintenance processes: Through audits, cases have been identified when assets have not had proper maintenance, which has led to loss of their value. Auditing has contributed to assets remaining in optimal condition for a longer period.

Adaptation to international practices: Some audit practices used in different countries have been used to develop and improve asset management strategies and policies at the national level.

Results

5.1 Asset reporting

Audit results regarding the reporting of non-financial capital and non-capital assets and inventories for the last three years (2021, 2022 and 2023) in the Budget of the Republic of Kosovo (BRK) Annual Financial Statements, presenting the value of errors or their overestimation/underestimation over the years.

Table 1. Audit results for non-financial capital and non-capital assets and stocks over the years.

Year 2021			
Pasuritë	The value of assets in the AFS-BRK	According to the Audit	Overvaluation / Undervaluation
Capital assets over 1,000€	9,130,085,941	9,044,466,976	85,618,965
Assets under 1,000€	54,800,072	56,911,631	(2,111,559)
Inventory	34,837,700	34,738,702	98,998
Total	9,219,723,713	9,136,117,309	83,606,404
Year 2022			
Pasuritë	The value of assets in the AFS-BRK	According to the Audit	Overvaluation / Undervaluation
Capital assets over 1,000€	9,255,049,451	9,314,148,700	(59,099,249)
Assets under 1,000€	57,697,493	57,936,879	(239,386)
Inventory	44,423,541	40,949,935	3,473,606
Total	9,357,170,485	9,413,035,514	(55,865,029)
Year 2023			
Pasuritë	The value of assets in the AFS-BRK	According to the Audit	Overvaluation / Undervaluation
Capital assets over 1,000€	9,795,923,304	9,814,700,320	(18,777,016)
Assets under 1,000€	60,143,428	61,640,342	(1,496,914)
Inventory	39,708,579	40,236,227	(527,648)
Total	9,895,775,311	9,916,576,889	(20,801,578)

From the table above, we note that, in 2021, non-financial assets in total were overvalued by €83,507,406 (assets over €1,000 were overvalued by €83,606,404, assets under €1,000 were undervalued by €2,111,559, while stocks were overvalued by €98,998).

In 2022, non-financial assets in total were undervalued by €55,865,029 (assets over €1,000 were undervalued by €59,099,249, assets under €1,000 were undervalued by €239,386, and stocks were overvalued by €3,473,606).

Compared to 2021, the value of the error in the presentation of assets in the 2022 PFV-s has a decrease of €27,741,375.

In 2023, non-financial assets in total were understated at a net value of €20,801,578, (assets over €1,000 were understated by €18,777,016, assets under €1,000 were understated by €1,496,914, while the understatement of stocks was €527,648).

In 2023, there was a significant decrease in the net value of the error at the level of non-financial capital and non-capital assets. Compared to the previous year, the value of the error has decreased by €35,063,451.

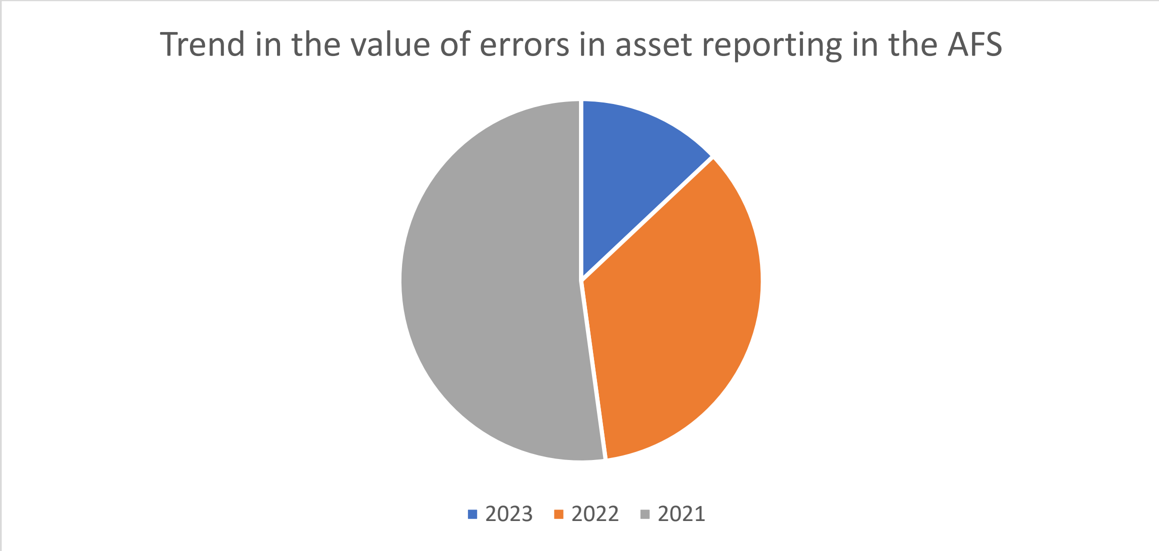


Chart 1- Graphical presentation of the trend of asset reporting errors in three years

If we analyze the trend in the level of errors in 2021, 2022 and 2023, also through graphical presentation, we notice significant improvements in the value of the error of assets presented in the government's annual financial statements, which indicates an improvement in the quality of financial reporting over the years.

5.2 Main findings

The audit results have shown that asset controls and management have been accompanied by several shortcomings over the years. Below, we have presented some of the most frequent findings over the years in the area of assets and we have analyzed how the number of institutions that have resulted in these findings has evolved over the years.

Table 2. Most frequent asset findings by number of central level institutions in the last three years

Central Level	Number of institutions		
Finding	Year 2021	Year 2022	Year 2023
Overvaluation/Undervaluation of assets	24	17	13
Non-harmonization of the asset register with the inventory report	11	10	6
Non-functioning of the E-Asset system	10	16	4
Deficiencies in the inventory process	4	0	5

Chart 2 – Findings by number of institutions in three years at the Central Level

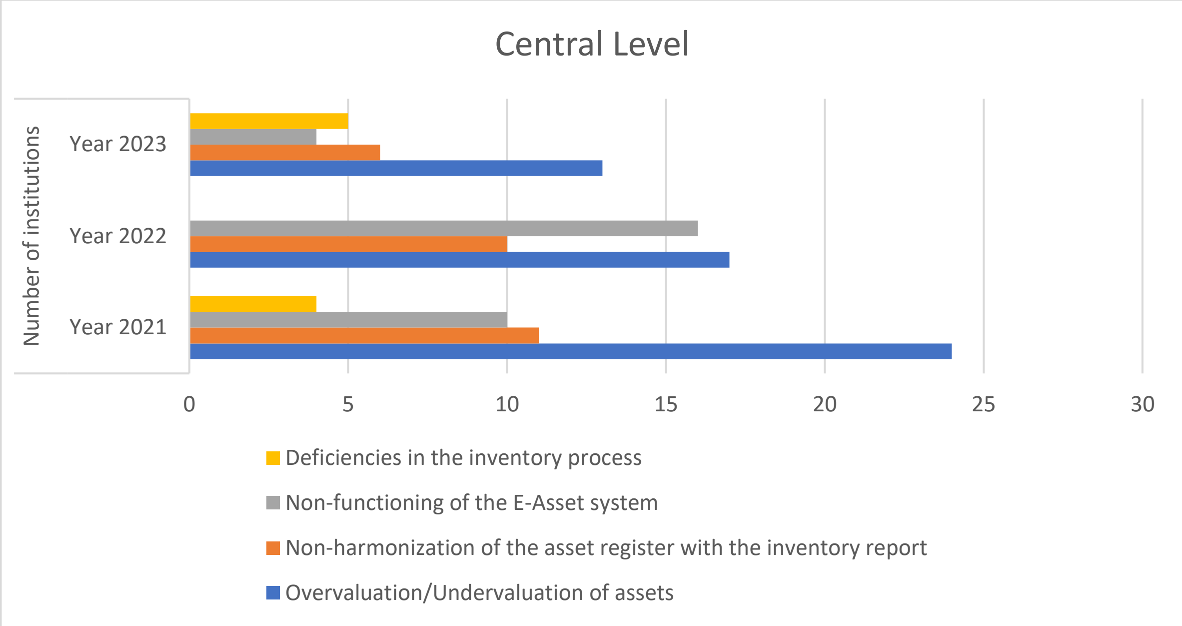
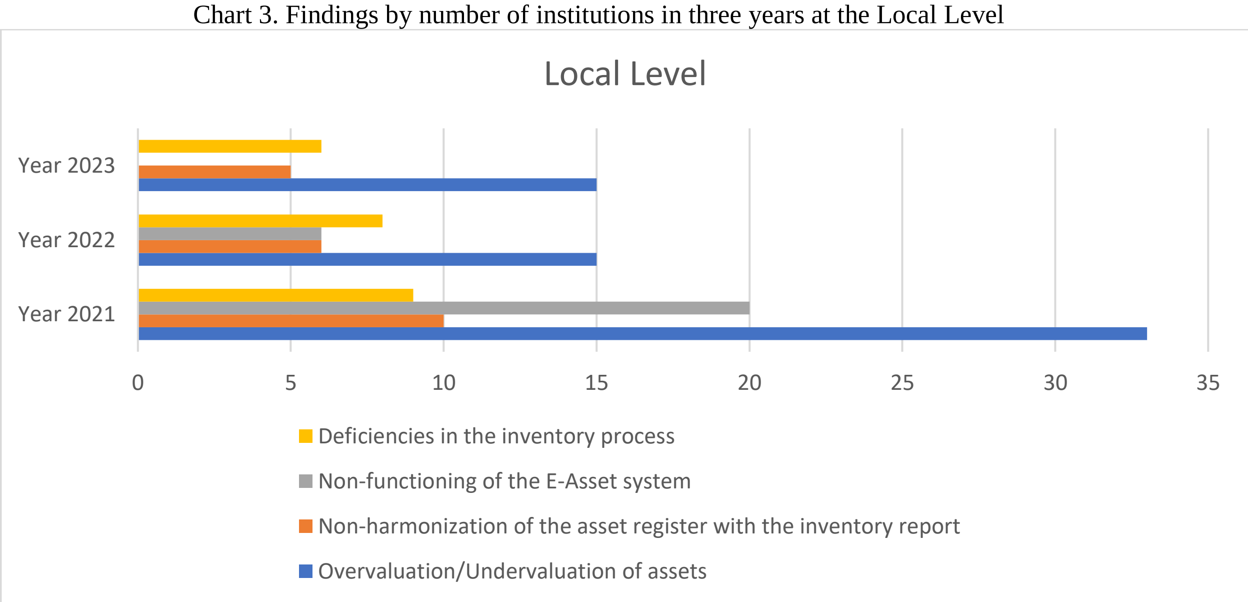


Table 3. Most frequent asset findings by number of local level institutions in the last three years

Local Level	Number of institutions		
Finding	Year 2021	Year 2022	Year 2023
Overvaluation/Undervaluation of assets	33	15	15
Non-harmonization of the asset register with the inventory report	10	6	5
Non-functioning of the E-Asset system	20	6	0
Deficiencies in the inventory process	9	8	6

Chart 3. Findings by number of institutions in three years at the Local Level



If we analyze the number of institutions that have resulted in major findings in the area of assets, both at the central and local level, we notice a significant decrease in the number of institutions with each finding over the years. This indicates a continuous improvement in asset management by public institutions, as a result of the recommendations given by the NAO.

Conclusions

Research shows that auditing has a significant impact on improving government asset management, both in terms of financial reporting and compliance with authorities. By ensuring transparency, increasing efficiency and helping to create better policies and procedures, auditing has an undeniable role in advancing asset management processes and increasing accountability in the public sector.

Based on the two analyses above, it is noted that the audit has had the following impact:

Reducing Errors in Assessment;

In 2021, the amount of errors was overstated, with assets being reported higher than those identified after the audit.

In 2022, an improvement was observed, as the overall error was understated, but smaller compared to 2021. This change may indicate an increase in accuracy in asset reporting.

In 2023, the errors were mostly small and there was still understatement, but the difference was smaller compared to previous years. This indicates a more careful and accurate management of public assets.

Improving Accuracy and Transparency;

Auditing has helped reduce errors, contributing to a more accurate and reliable picture of public assets. This process has increased accountability and transparency in asset management, reducing the possibility of major errors in asset valuation.

Improving the Legal Aspect;

The reduction in findings at the institutional level over the years may reflect an effort to also improve the legal aspect related to asset management, ensuring that public asset management processes are in line with laws and bylaws.

Improving Management Practices;

The reduction in reporting errors, the reduction in overestimations and underestimations, and the reduction in findings at the institution level over the years may reflect an effort to improve asset management practices and their valuation.

Impact on Resource Planning and Allocation:

Improving the accuracy of public asset valuation can have a direct impact on resource planning and allocation processes. When assets are accurately valued, financial needs and opportunities for optimizing resource use can become clearer.

We conclude that auditing has a significant impact on the management of public assets, helping to improve the accuracy and transparency of financial reports. Through regular audits and appropriate recommendations, sustainable improvements in asset management have been achieved and, consequently, in the provision of more efficient and reliable services to citizens.

This improvement is important for achieving responsible and sustainable management of public assets.

References

[1] CIPFA. (2010). Public Finacial Menagment-Volumi 1. London, United Kingdom: CIPFA-

[2] CIPFA. (2021). Public Financial Managment /a whole system approach-Volume 1, The Chartered Institute of Public Finance and Accountancy (CIPFA. 20-25.

[3] COSO Integrated Internal Control Framework. (2013, 6 7). Komiteti i Organizatave Sponzorizuese të Komisionit Treadway . COSO.

[4] experts, M. o. (2020). Internal Audit Manual, Management of internal audit activities, Ministry of Finance and Transfers in cooperation with EU experts. Prishtinë: Ministry of Finance and Transfers.

[5] Financave, M. e. (2013). Rregullorja 02/2013 për menaxhimin e pasurisë. Prishtinë: https://gzk.rks-gov.net/
[6] INTOSAI. (n.d.). Standardet Ndërkombëtare të Auditimit -SNISA . https://www.scaak.org/Al/ligjet-dhe-standardet/.
[7] Mihaela Grubpisic, M. N. (2009, Janar 15). Towards Efficient Public Sector Asset Management. TM1, p. 361.
[8] Ministria e Financave, P. d. (2017, shkurt 10). Rregullorja për Pasqyrat Vjetore Financiare /MF Nr. 01/2017. Retrieved from https://mfpt.rks-gov.net/: https://mfpt.rks-gov.net/
[9] Ministria e Financave, P. d. (2020). Procedurat e MFK-së -Doracak për menaxhimin financiar dhe kontrollin. Prishtinë: Ministria e Financave, Punës dhe Transfereve.
[10] Thorncoft, M. (1965). Principles of Estate Management, Michael Thorncroft . Gret Britain: ww.reasarch.
[11] Towards Efficient Public Sector Asset Management, www.researchgate.net. (n.d.).