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**CHALLENGES BEFORE BULGARIAN STATE UNIVERSITIES FOR DEVELOPMENT OF FINANCIAL MANAGEMENT AND CONTROL SYSTEMS IN SPENDING PUBLIC FUNDS****Abstract:**

After accession of Bulgaria to the European Union, the Bulgarian government performed new initiatives and some actions related to the implementation of major reforms in the field of financial control, in order to ensure good financial management of public funds. Among several new acts, the Financial Management and Control in the Public Sector Act was focused on managerial accountability and requires the managers of public sector organisations to manage resources so as to achieve the objectives of the organisation, and to ensure the protection of public interests. They have an obligation to introduce adequate and effective financial management and control systems and to ensure the internal audit function.

“Prof. D-r Assen Zlatarov” University is the only state university in Southeastern Bulgaria. The University faced the challenge of designing and implements a system for financial management and control after legislative amendments that were passed to implement the adopted strategy for the overall development of public internal financial control in Bulgaria after 2006. Difficulties have risen from the differentiation of the various components of the integrated framework for financial management and control, as well as misunderstanding how important the implementation of these systems is. The internal rules adopted by that time have launched a dynamic process of development of the internal controls in this public institution. In 2012, the financial management and control system of the University was updated in accordance with five interrelated components, based on the Integrated Internal Control Framework, as well as with the organisational structure and its specific activities, contributing to the consistent application of the regulatory framework in the country. The financial management and control is carried out through financial management and control systems, including policies, procedures and internal rules established by the management of the organisations for the purposes of providing reasonable assurance that the goals of the organisation have been achieved through:

1. Compliance with legislation and internal acts and contracts;
2. Reliability, comprehensiveness and accuracy of financial and operational information;
3. Economy, efficiency, effectiveness and transparency of operations;
4. The safeguarding of assets and information;
5. Promoting compliance with prescribed management policies.

One of the biggest challenges facing Bulgarian higher education institutions in the implementation of the financial management and control is the process of risk management, which should provide a better understanding of potential threats, actions or events that may positively or negatively affect the ability of public institutions to achieve their objectives.

**Keywords:**

Internal control, Financial Management and Control Systems, IICF

**JEL Classification:** M48, A19

## Introduction

The economic crisis is a state of the economy of a country or region, that is characterized by low levels of trade and investment activities, high levels of unemployment and inflation, resulting in political instability. Exceptional measures to support the European economy, recently announced by the European Central Bank, showed that the Eurozone has not fully overcome the crisis, which threatened to crash the Euro and quite possibly the global economy. The main problem is that the economic and political crisis has just begun and it forced all governments to actively reconsider their priorities and programs. The current economic and geopolitical situation challenges the managers to make decisions, which facilitate the dynamic balance between risks and internal stability in the environment of increasing insecurity.

“The following basic governance principles are described in the terms applicable to the public sector:

1. **Setting direction.** Good governance creates policies to guide an organization’s actions. In the public sector, policy may be directed through broad national goals, strategic plans, performance goals, legislative guidance, designated oversight organizations, or legislative oversight committees. A public sector entity’s policies — or at least its priorities — can generally be found in its strategic plan, operational plan, or budget, which allocates limited resources to specific activities.

2. **Instilling ethics.** Good governance includes clearly articulated ethical values, objectives, and strategies; appropriate tone at the top; and internal control. It should align policies and procedures to encourage employee and public official behavior that is consistent with the public sector organization’s ethics and values. An important element necessary to achieve behavior that is consistent with good ethics is setting and enforcing clear lines of accountability that hold people responsible for doing the right thing.

3. **Overseeing results.** Good governance requires continuing oversight to ensure that the policy is implemented as intended, the strategies are met, and the overall performance of the public sector entity meets the expectations while conforming to policies, laws, and regulations.

4. **Accountability reporting.** Because public sector entities act as “agents” to use resources and authority to accomplish established goals, those entities must account for how they use the resources and the results they have accomplished. Accordingly, good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor. Accountability also implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended.

5. **Correcting course.** When the organization has not achieved its financial or operational performance goals, or when problems are detected in operations or the use of funds, a good governance system will identify the root cause of the problems, determine the corrective actions needed, and follow up to determine whether those actions were implemented effectively. Auditors’ findings and recommendations represent critical input to good governance that can lead organizations to remedy

identified weaknesses and deficiencies promptly and appropriately.” (Goodson, Mory and Lapointe, 2012, p.9-10)

With respect to “accountability reporting”, the control of public finances is focused on national and international level and the role of internal control is more important and decisive than ever is. The public sector should improve the management of its costs and ability to deal effectively with the economic crisis by some immediate and adequate changes related to the management of public funds and the successful implementation of integrated systems for financial management and control”.

“Not all countries interpret the concept of internal control in the same way. While some countries have special internal control institutions that are independent from those they control, others give the responsibility for internal control to the respective administrative entities. In some countries this decentralised system of internal control is embedded and forms an integrated part of the administration. The need to establish internal control, report on it and apply a risk management approach can be spelled out explicitly in laws and regulations or derived from an existing legal basis. In decentralised systems, top managers have to report on the functioning of internal control systems. More and more countries also require top managers to apply systems for managing or mitigating the risk of not achieving the set objectives.”(European Commission, 2012, p.13)

In the Compendium of the public internal control systems in the EU Member states notes, that “PIC systems differ from country to country as they have to fit into the respective overall governance arrangements with each of the constitutional stakeholders — government, parliament and the supreme audit institution — as well as the accountability arrangements that exist between these stakeholders. Within the government, internal accountability arrangements are also a determining factor, as is the content of accountability of those responsible for carrying out public tasks. A distinction can be drawn here between legal accountability for compliance with rules and regulations and managerial accountability for the use of public resources to achieve goals. Budgeting and accounting arrangements also have to be taken into account.”(European Commission, 2012, p.13)

### **Body of the article**

As indicated by European Commission (2012) after accession of Bulgaria to the European Union, the challenge of reforming each sector of Bulgarian state government was accepted. Nowadays, the process continues and it is not always associated with the achievement of the preliminary set results and positive European reports. In regard to this, the Bulgarian government and its Ministry of Finance performed new initiatives and actions related to the implementation of major reforms in the field of financial control, in order to ensure good financial management of public funds. In 2006, the National Assembly adopted the Financial Management and Control in the Public Sector Act (FMCPA), the Public Sector Internal Audit Act (PSIAA) and the Public Financial Inspection Act (PFIA) in order to implement the 2005 strategy for the development of public internal financial control (PIFC) in Bulgaria. These acts

clearly set out and differentiate the control-related responsibilities of managers of public organizations, as well as internal auditors and public financial inspectors in terms of understanding and implementation of internal control in each activity of the public sector.

“The Financial Management and Control in the Public Sector Act needs special attention, because it is focused on managerial accountability and requires the managers of public sector organizations to manage resources so as to achieve the objectives of the organisation, and to ensure the protection of public interests. They have an obligation to introduce adequate and effective financial management and control systems and to ensure the internal audit function. Only adequate and properly functioning systems for financial management and control systems give reasonable assurance that the organization's objectives will be achieved in accordance with the principles of legality, good financial management, and transparency.”(Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.4)

At the same time, regardless of how well structured and managed an effective internal control system can provide only reasonable and not absolute assurance to the management regarding the achievement of objectives of the organisation or its survival. Public internal control system can provide information on the progress of the organisation in terms of achieving the objectives or lack thereof to the management. However, the internal control is not able to transform an inherently bad leader into a good one.

A review of current approaches to administration management, as well as new trends at European level, show that the performance assessment is an integral part of the overall management process, which is defined as a result-oriented management. This is a consistent process of continuous development of the organisation, the human resources and working methods, and implementation techniques, which is focused on achieving targeted results. High scores indicate that the manager is successful and the structure managed is working effectively. In accordance with the FMCPA, managers of public organizations are responsible for fulfilling the organizations' objectives by managing public funds in a legal, economical, efficient and effective way.

As indicated by Bulgarian Ministry of Finance (2006) regardless the reforms already taken, Bulgaria has good traditions and experience in the area of control and some of the requirements of FMCPA are already being applied in public sector organizations. Examples of such are the rules and procedures established for management of human resources, accounting system, archive and documentation, preliminary control, etc. Along with that, the FMCPA has introduced a new terminology, principles and requirements applied in the European Union, to which Bulgaria should also adhere. A new conception of internal control as an integrated framework has been perceived. In this way, the Act has introduced the current definition of financial management and control, whereby control is not limited to its financial aspect, but is applied to all aspects of the organisation. Internal control is not limited to the traditional understanding of the concept of financial control, but also covers the broader notion of management control and emphasizes the contemporary relevance of non-financial

information. Both financial and non-financial information jointly make the optimal contribution to achieving the goals for transparency and consistency set by the public organizations.

The Bulgarian legislation on financial management and control practices has introduced five interrelated components, based on the Integrated Internal Control Framework developed by COSO<sup>1</sup> and the INTOSAI<sup>2</sup> guidelines for implementation of internal control standards in the public sector. In summary, aimed to clarify in detail the scope of the system and its importance to the objectives of each public organisation, these are:

*“Control environment* is the basic component for further development of all the other components of internal control. The Control environment sets the main values in the organisation and influences the attitude of employees towards internal control. It provides discipline and structuring of control in the organization.”(Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.8)

*“Risk management* is the process of identifying, assessing and monitoring of risks, that may affect the achievement of the objectives of the organisation, and implementation of the control activities needed to reduce risk to an acceptable level.”(Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.11)

*“Control activities* are defined as any action aimed at minimizing the risk and increasing the probability of achieving the goals and objectives of the organisation. Implementation of the control activities depends on the risk assessment. It is acceptable for one risk to be limited by several different types of control activities, and vice versa: a control activity to influence and prevent several risks. Management should plan, organize and guide enough adequate control activities to provide reasonable assurance that the goals and objectives set will be achieved.”(Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.11)

*“Information and communication* of each organisation in the public sector are created, processed, used, stored and provided in accordance to its specific functions and goals. Information is the basis for communication necessary for effective performance of assigned duties. Communication is a two-way flow of information in forward and reverse direction on all channels in the organisation, both horizontally and vertically. Its purpose is to raise awareness and thus help achieve the objectives of the organisation.”(Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.20-21)

*“Monitoring* of the public internal control systems is performed to ensure that the controls are functioning as required and are changed appropriately to changing conditions. Such a guarantee can be given by evaluating the quality of the performance of the internal control systems in time. Monitoring is a comprehensive

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<sup>1</sup> COSO - Committee of Sponsoring Organisations of Tredduey committee that includes representatives of the Institute of Internal Auditors, the American Institute of Certified Public Accountants (AICPA), auditing firms, large U.S. companies and others. The Committee shall prepare a report "Internal Control - Integrated Framework" and published it in 1992 report is also known as a model for internal control oblique or Integrated Internal Control Framework

<sup>2</sup> INTOSAI – International Organization of Supreme Audit Institutions (SAIs) of the Member States of the United Nations and the specialized agencies of the UN. Founded in 1953 it is viable and members more than 170 SAI, including Court of Auditors of the Republic of Bulgaria. Plays an important role in promoting sound financial management and accountability in the countries represented by their SAIs, INTOSAI

overview of the organisation, which aims to provide assurance that the controls are functioning as intended and remain effective over time. During the monitoring, the head of the organisation should pay attention to the state of financial management and control and objectives achieved.” Bulgaria. The Ministry of finance, Directorate of Internal control, 2006, p.20-22)

According to the Bulgarian Higher Education Act, the state universities are created and they operate on the grounds of provided state property and annual state subsidy. Being public organizations, they are obliged to comply with the current legislation of internal financial control.

Designing and implementing of an effective internal control system was the major challenge before the Rector of each Bulgarian state university. All difficulties came from the differentiation of the various components of the integrated framework, as well as from the misunderstanding how important the implementation of these systems is.

The university “Prof. D-r Assen Zlatarov” is the only state university in Southeastern Bulgaria. It was founded on 6th October 1963 by Decree № 162 of the Council of Ministers as a Higher Chemistry-technological institute. “Prof. D-r. Assen Zlatarov” University was ratified as such by a resolution of the National Assembly in 1995. The University faced the challenge of designing and implements a system for financial management and control after legislative amendments that were passed to implement the adopted strategy for the overall development of public internal financial control in Bulgaria in 2006.

Understanding the Law on financial management and control, and its subsequent implementation in practice has not been an easy task. Difficulties have arisen from the differentiation of the various components of the integrated framework for financial management and control, as well as misunderstanding how important the implementation of these systems is. The internal rules adopted by that time have launched a dynamic process of development of the internal controls in this public institution.

In 2012, the financial management and control system of Burgas University was updated, and each of the five “COSO” elements was finally developed in accordance with the organisational structure and its specific activities, contributing to the consistent application of the legislation framework.

It was carried out through policies, procedures and internal rules established for the purposes of providing reasonable assurance that the goals of the organisation have been achieved through:

1. Compliance with legislation and internal acts and contracts
2. Reliability, comprehensiveness and accuracy of financial and operational information;
3. Economy, efficiency, effectiveness and transparency of operations;
4. The safeguarding of assets and information;
5. Promoting compliance with prescribed management policies

The **control environment** is the foundation for the development and functioning of other elements of the financial management and control. It defines the fundamental values of the organization and ensures consistency and structuring of control. Factors,

which form the control environment, include philosophy and management style, personal commitment, professional ethics and competence of the manager, the ethics and competence of staff, good organizational structure, policies, delegation of powers and human resources management policies.

Heads of state universities should have the confidence to create the right conditions for the functioning of managed entities. The management style must be consistent with the specific of public organization and contribute to the establishment of adequate policies and practices in the management of human resources.

Insufficient administrative capacity, as the preparation of plans for training and development of staff is a challenge to building systems for financial management and control in the Universities. At the beginning of each year, the heads of the public institutions should draw up training plans, according to financial resources at their disposal. Even if they do not have the necessary financial resources, institutions should describe in their internal documentation the reasons and to purpose other measures for qualification development of staff.

Real provocation for state universities is the correct marking of the organizational structure and defined lines of reporting. The organizational structure should be consistent with all units, functional characteristics and rules for delegation of powers. Absence of reports on the use power of attorney and written improvements of existing models of organisational structures contribute to misunderstanding and transparency in internal control.

Personnel job descriptions are an important part of the control environment element. They should be reviewed each year and therefore to supplement by assigned new duties. Errors that occur here are related to the presence of the text "other duties assigned by the employer" in the description of the personnel job characteristics. Eventually, to the person may be assigned duties, which are not directly related to his position and qualifications.

Is necessary to improve the processes of planning of objectives and activities in the public sector as a whole, which determines the status of the management and control and the end effects for society organizations, provide by public services.

According to Financial Management and Control in the Public Sector Act (2006) the heads of organizations are obliged to carry out **risk management**, threatening the achievement of the objectives, as described in the methodology of the Bulgarian Minister of Finance. Specific ways to identify, assess and respond to risks are determined by the leaders in their approved strategy for risk management of the organization. Between planning process objectives and risk management has a direct relationship. Risk management as part of an integrated internal control framework does not exist without goals.

Activities on risk management are not new to public sector organizations and respectively for the universities. They are an integral part of the operation and management of the organization. Exactly process of risk management is one of the main challenges, facing Bulgarian higher education institutions in the implementation of the financial management and control. The process should provide a better

understanding of potential threats, actions or events that may positively or negatively affect the ability of public institutions to achieve their objectives.

Risk is an event that will affect the achievement of the objectives of the organization. The risk is measured by his "influence" and the "probability" of occurrence. Ratings on the "influence" and "probability" are a major step in risk management. It is a prerequisite for making a decision on the appropriate measures to be taken to reduce the likelihood and impact of identified risks.

Principles of risk management, followed by the Bulgarian state universities are:

- legality and compliance with regulations;
- effectiveness of the organised process of risk management;
- effectiveness of the methods applied in the process of risk management aimed at reducing the negative impact of the risk and the likelihood of its occurrence;
- costs of implementing risk control should not exceed the benefits of its reduction;
- clear delineation of rights, duties and responsibilities of the various participants in the process of risk management.

In the public sector, risks go beyond normal financial and operational risks, and can include political and societal risks. According to the 2011 Aon Global Risk Management Survey, the top three risks for higher education are ranked as follows:

- Regulatory and legislative changes;
- Economic slowdown;
- Damage to brand or reputation

Each Bulgarian university should establish a strategy for risk management for three years. A common mistake is that almost all Bulgarian universities establish management strategies before to test how they work in real conditions compared to the pre-defined goals. Particularity in the practical application of the process of risk management is that universities should control and monitor only those risks, which can be managed. Mistakenly is the view, that public organizations can manage risks like economic slowdown or regulatory and legislative changes.

Absence of documentation is an obstacle for a regular and systematic review of the activities of risk management in the public organizations. The tendency of not to carry out documentation of the process of risk management continued in 2013. This tendency will slow the opportunities in the development of internal control systems of public universities.

Ensuring efficiency and transparency of the risk management requires monitoring of identified risks and periodically taking of action to reduce them. Periodic review and update the risk-register is a mandatory part of the documentation of the process of risk management. Since there is no official a specific template form for the risk register, the universities may to develop, according to their specific structures and goals.

Table 1. Template for Risk-register in University Prof. D-r. Assen Zlatarov Bourgas<sup>3</sup>

UNIVERSITY PROF.D-R. ASSEN ZLATAROV BOURGAS				
<b>UNIT:</b>			Reconciled:	
			Date:	
<b>STRATEGIC GOAL:</b>				
OPERATIONAL GOAL:				
FUNCTIONAL AREA:				
№	Identified risk	Inherent risk		Assessment of identification
		Influence	Probabibility	

Adopted to the following example scale for assessing the probability of occurrence:

*1 = low probability / rare opportunity to happen*

*2 = average probability / is able to occur*

*3 = high chance*

The same is seen in terms of the influence (effect) of the effect.

Assessment of identification is the multiplication of the set evaluations of probability and influence.

A very important part of the process of risk management is the introduction of rules for assess of identified risks, in which the public universities use different persons over a period of time to carry out the assessments. This follows from the existence of a subjective opinion regarding to assessments, as each participant in the process may have a different opinion to the effect of influence and probability of occurrence of events.

As another weakness of the practice of monitoring of the risks can be noted, that the updating of risk-register only when is necessary and only for "written" existence of

<sup>3</sup> Example from Integrated Internal system for financial management and control of University Prof.D-r Assen Zlatarov Bourgas, 2014

that kind of document. Thus cannot provide reasonable assurance that the actions of risk management are suitable, adequate and effective in time.

Table 2. Template for updating summary of Risk-register in University Prof. D-r. Assen Zlatarov Bourgas<sup>4</sup>

UNIVERSITY PROF.D-R. ASSEN ZLATAROV BOURGAS								
<b>UNIT:</b>				Approval:				
				Date:				
<b>STRATEGIC GOAL:</b>								
OPERATIONAL GOAL:								
FUNCTIONAL AREA:								
Risk	Assessment of inherent risk		Taken actions	Assessment of residual risk		Additional actions	Term	Supervisor (executants)
	Influence	Probability		Influence	Probability			

The basic prerequisites for an adequate risk management can be summarized in:

- established strategic objectives of the Universities;
- approved operational plan with operational objectives (to achieve strategic objectives);
- strategic plan and strategy for a period of not less than 3 years;
- approved activities, deadlines, expected results, performance indicators;
- distribution of responsibilities between the participants in the process;
- provided resources to fulfill the obligations of risk management;
- documentation of the process (risk register);
- staff awareness of the importance and relevance of risk management

Risk management requires not only identification, assessment and control, but also systematic monitoring and reporting on his condition. This monitoring of the process will show how risks are managed successfully - i.e. whether control activities really minimize the risks involved and whether it is achieving the goals threatened by these risks. Thus will ensuring the transparency and accountability in the state universities.

<sup>4</sup> Example from Integrated Internal system for financial management and control of University Prof.D-r Assen Zlatarov Bourgas, 2014

As indicated by the Ministry of Finance (2013) there is a delay in the adoption and implementation of risk management, which became one of the problems of internal control systems in the Bulgarian public sector. It can be resolved by systematically upgraded knowledge in this area. To improve the state of this element is needed further action to synchronize with the process of setting goals, allowing its integration in a natural way in the work of public organisations. This could enforce the rules to be applied at any stage of the process in accordance with the specific structure of the Bulgarian state universities.

Regarding to the Financial Management and Control in the Public Sector Act (2006) the heads shall establish and implement **control activities**, including as a minimum:

- procedures for permission and approval;
- segregation of duties in a way not allowing one member of staff to be simultaneously responsible for approval, execution, accounting and control;
- dual signature system, which does not allow a financial commitment or a payment to be made without the signatures of the head of the organisation and the member of staff responsible for the accounting entries;
- rights of access to assets and information;
- ex-ante control for legality, which can be exercised by specially appointed financial controllers or other persons, determined by the head of the organisation;
- procedures for complete, true, accurate and timely accounting of all operations;
- reporting and check of activities - evaluation of the efficiency and effectiveness of the operations;
- monitoring procedures;
- Human Resources Management rules;
- rules for documenting all transactions and activities, related to the operation of the organisation.

Each of the mentioned in act controls should be associated with the other element of the integrated system of financial management and control. The necessity of written rules for their implementation and audit trails will facilitate the process of internal control in public organizations. The leaders of public organisations should not forget the senseless writing of procedures if they do not actually apply in practice.

Undoubtedly the control activities are the element, by which most clearly evident the managerial accountability and understanding of the importance of the development of financial management and control systems in spending public funds. Act requires the controls to be adequate to the risks, to be integrated to all organisation activities and their implementation costs should do not exceed the expected benefits from them. An important condition for achieving good financial management, transparency and efficiency is a proper understanding of the needs for adequate controls in all activities on the educational institutions. For the implementation of this condition it is necessary all internal rules, concerning control activities to be carefully laid out, checked and all of employees to be aware how to achieve them.

The main challenge before Rectors of the state universities is the introduction of the internal control mechanisms that ensure compliance with the legislation on public procurement and reducing the risks of splitting orders, omission of relevant procedures, mandatory withholding information etc. The difficulties faced by contracting educational entities stem from the complex procurement system, the controversial practice and the different treatment of the matter by the public authorities that have functions in monitoring and sanctioning. In this regard the public university should implement the control activities in accordance with applicable regulations of the European Union, when they spending won grants from European funds and programs. Deficiencies that are made by the majority of universities stem from the lack of improve and simplify to the process of implementation of control activities. Updating the controls in case of a new activity or a project by the European OP is a necessary component of the implementation of the financial management and control system.

Another challenge to the component control activities from the integrated internal systems before universities is combined application of control procedures. Sometimes too heavy procedures impede the timely achievement of the results of the activities. Requirements for many signatures, documentation and measures make the process of internal control slow and incomprehensible to teachers and researchers. Therefore combined application of controls would help to facilitate the links between university units, which ultimately will provide the necessary reasonable assurance that the overall objectives of the university will be achieved according to the principles of economy, efficiency, efficacy and transparency.

In development the system of internal control of Universities is important, the established controls to be proportional of the risk. Except in extreme adverse situations is usually enough to create controls that provide reasonable assurance in reducing losses within the organization's appetite for risk. Each control mechanism is associated with certain costs and control activities should be effective in terms of costs and manage risks. The direction of development of the financial management and control should be oriented towards of the presentation of a comprehensive analysis of the cost of control procedures, based at minimizing risks and investments in human resources.

**Information systems and communication** must provide identification, collection and distribution in an appropriate form and terms of reliable information to permit the duties of each officer of the organization. Their development is a strong factor in improving of public management.

Challenges before the leaders of Universities is to introduce an effective information and communication systems that will allow for sound management decisions for the adequate implementation of the obligations and for the preparation of timely and accurate reports on all activities. This is essential to achievement the necessary openness and transparency to maintain the public confidence in the process of implementing and managing both of the strategic educational and research objectives, so and on university projects in EU programs and schemes.

Mistakes made by almost of higher education institutions are associated with insufficient clarity of information sites, not timely publication of information. Any

change in the internal rules and procedures should be updated in the information sources of the university - sites, internal pages and newspapers. Users of this information can not only be the employees of educational centers, but also state institutions exercising control activity.

Communication in the public sector is a significant part of the internal control. Therefore establishment of adequate communication channels would improve the receipt of timely, current, relevant, accurate, correct and available information. Regular meetings between managers and employees are a prerequisite for understanding and achieving of tasks. The presence of written protocols for decisions, coordination of opinions and proposals will increase the effectiveness of communication channels in the vertical and horizontal in organizational structure. Also should not be underestimated the system for external communication. It provides the necessary clarity to the management of public universities in terms of the external perspective on all activities and existing problems. The usefulness and importance of the communication is related and to determining the proper functioning of the financial management and control.

One of the main objectives of this element of an integrated internal control framework is to provide a sustainable partnership between the public administration, European public authorities and all participants in the educational and research process. Effective dialogue as a means to achievement of interaction and feedback will increase the confidence in high education and awareness of the Implementation of internal rules and procedures.

**Monitoring** is particularly topical today. In implementing of the monitoring, the leaders of public organizations should be focus on the achieved objectives and the condition of the financial management and control. Monitoring should be applied daily and in each activity of the universities. Challenge before universities is to introduce correct rules for the implementation of prescriptions and to correct all deficiencies, identified after inspection from the control authorities. To achieve this Rectors of the Universities, should to determine the deadlines of reporting and terms to correct of deficiencies. Good practice is the compilation a register and the setting of employee for its filling. A common misconception is that this should be the person responsible for the accounting entries. This leads to a finding of deficiencies in addressing of the responsibility for monitoring progress in improving of the inspection system, in view of the fact that the recommendations and their implementing are not entirely relevant to the activity of financial reporting.

Unfortunately, regardless of the positive attitudes of university management still remains a need from carefully and persistently implementation of various forms of internal monitoring of processes, results and risks affecting them.

## **Conclusion**

The aim of this work is to present the challenges before Bulgarian state universities for development of financial management and control systems. To do this, we relied on real practical problems in developing of such a system in a University "Prof. D-r Assen Zlatarov" and audit's experience, gained from inspections to other state

universities in the country. In addition, our advice and measures to implement systems for financial management and control cannot cover completely and categorically that process.

“At this moment of economical crisis, when the perceived needs for better protection of public financial interests, efforts of the management of organizations should continue to focus on ways to modernize and adapt the management and control based on an analysis "cost/benefit" in the implementation of the policies, rules and practices.” (Bulgaria. The Ministry of finance, 2014, p.18)

The one of the most important for development of financial management and control in state universities is creating a system, which is only for a specific needs and rules for each public organisations. Using the method of “copy-paste” from another universities or public institutions make the internal control process not only unsecured and inappropriate, but also limits the achievement of goals and managerial accountability.

Whichever of five element of an integrated internal control framework will be presented, the challenges before universities in introducing of the control systems will not reduced. The basis of the process of developing the systems of financial management and control is the leader of the organisation and his management responsibility/accountability. This is exactly the person who should take the challenges and organize the process of their overcoming. The complexity of the process of building and implementing a public internal control system is that the model is based on the human decisions Despite the development of internal controls in computer programs and digital models, the human recourses are those that perform the connection between the systems in the management of public funds and accounting, mirroring the control process on public financial situation in reality. Exactly this the internal auditors want and looking for in their annual inspections. And they know very well how to do this.

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