Implementation of Financial Management Reforms in the Health Sector: Why it Matters?

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Ministry of Health (MOH), the stewardship of community health, has a duty to formulate the national health policies, affects the stakeholder’s behavior, and develops the health actions (1). Iran’s health system like developing countries is faced with several problems (i.e. cash registration of receipts and payable, registration of assets in account of expenses, deficit to generation of financial reports, absence of creating the financial statements) which lead to be designed the reforms by policymakers. Furthermore, MOH in Iran was encountered with considerable financial burden. On the other hand, the main difficulties in Iran’s financial management system result from the absence of authentic and reliable information for financial management of health sector. Given the regards of complications the traditional system and according to the high level documents (i.e. fourth economic, social and cultural development Plan Act of the Islamic Republic of Iran; Financial and Transactional Bylaw of Universities and Faculties of Medical Sciences; Public Audit Act; Civil Service Management Act; Boards of Trustees of Medical Universities Act), necessity of implementing reforms has been revealed. Therefore, implementation of reforms and having the effective financial management in MOH was unavoidable (2).

At this line, financial management systems reforms idea has been proposed by Performance Monitoring and Budgeting Center of MOH at 2005. Accordingly, financial management reforms in the health sector have been initiated in the fourth phase as follows: 1- Accounting approach change from cash-based to accrual-based 2- Establishment of cost price system 3- Implementation of performance-based budgeting 4- Productivity management, evidence-based analyzing and decision making

The implementation of the first phase (the establishment of the accrual accounting) began in the affiliated units of MOH in 2005. Cash-based accounting records receipts, payments, and cash residues at the time of the exchange of cash; therefore, financial statements based on cash accounting show the resources of receiving funds and allocation to cash expenditures in a traditional way and compares it with budget expenditures, while using this system for the implementation of the governmental programs for a more effective utilization of public resources is not suitable (3). During the last three decades and in the shadow of modern public management, public sector’s accounting has undergone numerous changes the most obvious one is accounting reform (4, 5). The majority of developed countries have moved from cash-based to accrual-based accounting (6). The incentives to implement accrual-based accounting are timely management evaluation, superior to cash-basis, facilitating the financial management and understanding the costs of the plans; access to information to optimize resource allocation; appropriate financial reporting, achieve tax planning goals, satisfy of managers about earnings and cash management (7-10).

The second phase of the financial management reforms is cost accounting which is a very important instrument for managers to analyze the cost of services and control the expenses of materials, wages, and other expenses. Of course, this method is not exclusively used for production section and it is also used in banks, insurance companies, wholesales, transportation companies, airline companies, universities, and hospitals for more efficiency (11). Furthermore, since cost accounting pays attention to the details of indirect expenses for identified specific activities, it can be used as a precious means for financial decision-makings, especially for promoting productivity (12).

The third phase of the financial management reforms is performance-based budgeting which is a kind of planning, budgeting, and monitoring system and highlights the relationship between the budget and the expected outcomes. Increasing responsibility and accountability based on outcomes, improving performance management, and improving allocation are the most important advantages of this budgeting method (13).
The final phase of the financial management reforms is productivity management, evidence-based analyzing and decision making. This phase will provide an optimum decision-making model for junior and senior managers, policy-makers, and decision-makers (13).

Taken together, financial management reforms can be regard the most necessary reform in the health system due to its numerous advantages and policymakers need to understand that financial management reforms requires a comprehensive approach to achieving the assumptions of fourth and fifth economic, social and cultural development Plan Act.

Competing interests
The authors declare that they have no competing interests.

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