

# Designing New Financial Management System in Health Sector of Islamic Republic of Iran

Hafezi R<sup>1</sup>, \*Abolhallaje M<sup>2</sup>, Ramezani M<sup>3</sup>

<sup>1</sup>*Physical Medicine and Rehabilitation, Faculty of Medicine, Baqiyatallah University of Medical Sciences, Tehran, Iran*

<sup>2</sup>*Commercial Management, Director Manager of financial resource and budget planning office of Ministry of Health, Tehran-Iran*

<sup>3</sup>*Health Economics, Senior Expert in Health Economics, Ministry of Health, Tehran-Iran*

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## Abstract

**Background:** In health system of any country, securing financial resources and management of the same is one of the most vital apprehensions in regards policy makers. This article expresses a part of the obstacles and threats present in the management of the government financial resources of health sector and in assimilating this, the requirement for amendments in the financial system and designing new financial management system of health sector in Iran .

**Methods:** The authors conducted a case study based on interviews with government, and academic participants. Two methods of data collection were used: retrospective analysis of official documents and in-depth interview.

**Results:** The root of the obstacles relevant to the management of financial resources in health sector in four intricate and fundamental modes of executing cash accounts in contrary to accrual accounts, where there is an intense weakness in the internal controls due to the lack of periodic reports, so as to define the source of deviations, the lack of a mechanized system and ultimately, the absence of a comprehensive monetary plan in the Country. Based on these obstacles, the new financial management system of health sector in Iran was designed including mission, objectives, structure, human resources and duties, processes and procedures, external environment.

**Conclusion:** Designing new financial system in health sector of country is a way to effective and efficient management of financial resources and aid health system to achieve ultimate goals.

**Keywords:** *Financial system, Health sector, Iran*

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## Introduction

Financial management is one of the most important fundamentals of health systems (1). In the health system of any country, securing financial resources and management of the same is one of the most vital apprehensions in regards policy makers (2, 3).

First steps to reform in health financial management system of Iran were taken in 2003, a pilot project was conducted to estimate cost price of services in 40 hospitals by programming bureau of financial resources and budget- directorate of management, development and Resources in Ministry Of Health and Medical Education (MOHME) (4).

In respect to obstacles relevant to financial management of health sector, programming bu-

reau of financial resources and budget in MOHME, has initiated a project named " designing new financial management system in health sector of Iran". The aim of our article is to introduce this project as a step in the way to health reform in Iran.

## Material and Methods

We conducted a health system research (HSR) based on case-study method. Project was performed by programming bureau of financial resources and budget in MOHME from 2006 to 2008. There were four main stages.

1- Retrospective collection of data, documents and official records:

- The authentic documents were used to design new financial system (4-6,7-9,)

2- Initial designing of new financial management system.

Initial designing of new financial system of health sector was done by deputy of Management Development and Resources undersecretary, manager and staff of programming bureau of financial resources and budget, financial and budget experts from medical universities and representatives from pilot hospitals (25 of 40 hospitals participated in operational budgeting project in 2003), in partnership. The draft for new financial management system was the product of first stage.

3- Ask experts and stakeholders their opinion about new financial management system and approve initial draft.

Purposive sampling method was employed to choose participants for project. Participants were 30 people from medical science universities, Iranian council of accountants, the Islamic consultative assembly, national financial court, the ministry of economic and financial affairs and the state organization for auditing and other deputies of MOHME. In-depth interviews were conducted to collect data. Interviews comprised a series of questions, typically semi-structured or unstructured, conducted in person. Previous financial system in health sector and obstacles, the need for reform and designing new system and its advantages and disadvantages, concerns about the implementation, suggestions and recommendations to improve it were discussed.

Focus group discussions were conducted to ask expert opinions and finalizing designed financial system in programming bureau of financial resources and budget. Ultimately, designed financial management system was approved by minister of health and undersecretaries assembly.

## **Results**

Results of the study are presented in three following parts:

1. Specifying problems in the previous financial management system of health sector (Table 1).

2. Requirements for establishment of new financial management system (Table 2).

3. Designing new financial management system of health sector in Iran

New financial system of health sector has been presented in following areas:

- **Mission:** Mission of new financial system is to secure, allocate and distribute financial resources, anticipate future needs, specify and utilize existing resources with regard to national forth social/economic national plan.

- **Objectives:**

- To determine the genuine tariffs
- To specify national health accounts
- To improve productivity of system
- To correct the system of payment and income

- **Structure:** Structure of new financial management system is displayed in Fig. 1.

- **Human resource and duties:** Financial manager must be educated as an accountant with a bachelor degree and Professional experience of at least 4 yr in the fields of health systems. Education, experience, competencies, duties and responsibilities of all staff has been mentioned in designed system in detail.

- **Processes and procedures:** Processes and procedures of new financial management system are displayed in Table 3.

- **External environment:** External environment of new financial management system and the way to communication with stakeholders are displayed in Fig. 2 and Table 4.

**Table 1:** Specifying problems in the previous financial management system of health sector

| Problems             | Issue raised  |
|----------------------|---|
| <b>structural</b>    | <ul style="list-style-type: none"> <li>Lack of appropriate infrastructures for effective utilization of financial resources (experts believe that increase in financial recourses will be ineffective if the previous financial system exists)</li> </ul>   |
| <b>informational</b> | <ul style="list-style-type: none"> <li>Lack of authentic and reliable information for financial management of health sector</li> <li>in the health sector that is a section pertaining to the government in the country, the assembling and preparation of financial reports takes place only for the supervising organizations of the National Financial Court, the Ministry of Economic and Financial Affairs and the State Organization for Auditing. Till date, there have been no requirements felt for the collection and preparation of fiscal information within organizations for the management of sections such as, the amount of goods present in warehouses, stable assets and properties, financial information as to hospitals</li> <li>the internal manager only depended on the comprehensive budget information to assimilate the operations of the institution.</li> <li>Financial reports of the internal section are those facets of financial standards that have the capacity of being utilized by managers, financial ratio, the amount of permanent and variable expenditure, specifying the commitments of others as to the organization and vice-versa are not prepared and as a result in this section, cost attainment, pricing of services, specifications as to the amount of aid to the government will not be possible</li> <li>Existence of various services (about 10000 services) in health sector</li> <li>Lack of mechanized information system</li> <li>Lack of monetary roadmap in health sector</li> </ul> |
| <b>legal</b>         | <ul style="list-style-type: none"> <li>legal obstacles present in the health sector, such as the presence of various regulations that at times are contradictory</li> </ul>   |
| <b>financial</b>     | <ul style="list-style-type: none"> <li>the advancement of age of the population on a daily basis and thereby, an inclination towards treatment with utilization of high technologies, profuse medication costs, the appearance of new chronic diseases, an increment of patients devoid of insurance coverage and likewise, a growing demand for the development of physical scopes and the objective of rendering services in various regions of the Country, that leads to an increase in the costs and expenditures of health and treatment of the Country.</li> <li>Increasing ratio of out of pocket in recent years</li> </ul>  |
| <b>managerial</b>    | <ul style="list-style-type: none"> <li>Managers don't pay attention to need for gain as income due to imperfective internal financial control</li> </ul>  |
| <b>regulatory</b>    | <ul style="list-style-type: none"> <li>Impossibility of determining productivity of health service units and analysis of organization operations in the previous financial system due to cash accounting</li> <li>Abandonment of organization independency due to cash accounting</li> <li>Lack of periodic regulation to distinguish deviations and make appropriate interventions</li> </ul>  |

**Table 2:** Requirements for establishment of new financial system

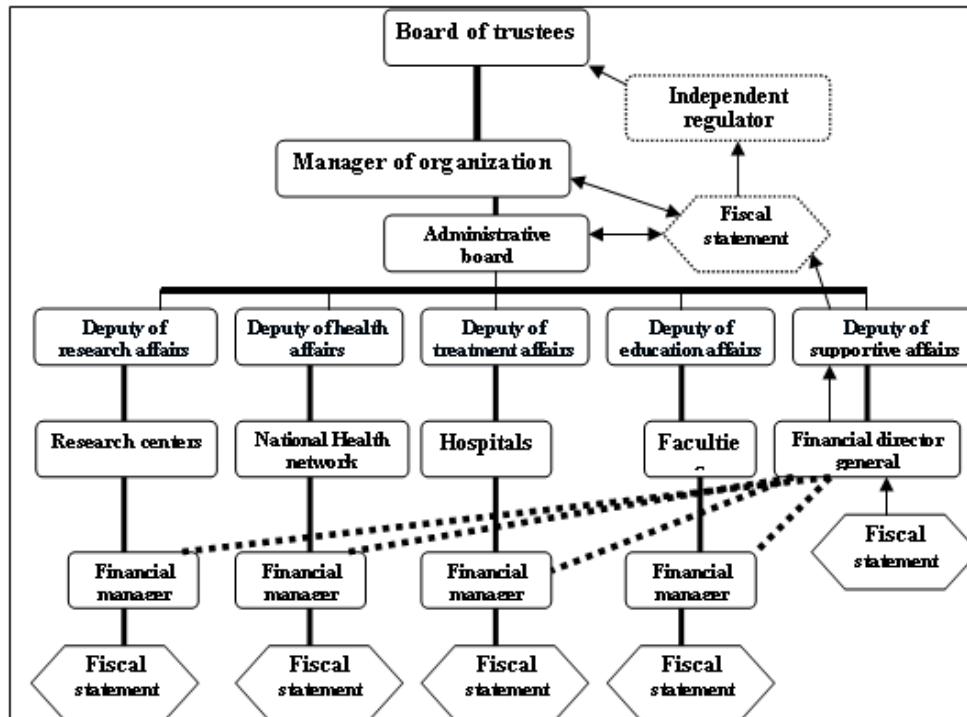
| Requirements         | Issue raised  |
|----------------------|---|
| <b>Managerial</b>    | <ul style="list-style-type: none"> <li>Establishment of holding managerial system with decentralized financial systems in medical science universities</li> </ul>   |
| <b>Legal</b>         | <ul style="list-style-type: none"> <li>As Article 49 of the Fourth Social/Economic Development Plan of the new fiscal regulation has been prepared for the health section</li> </ul>  |
| <b>Structural</b>    | <ul style="list-style-type: none"> <li>recognition of affiliated institutions of medical science universities as independent institutions and producing segregate financial statements</li> <li>Establishment of accrual accounting instead of cash accounting</li> </ul> |
| <b>Informational</b> | <ul style="list-style-type: none"> <li>Clarification of financial statements and determining all properties and operations of several institutions</li> </ul>   |
| <b>Regulatory</b>    | <ul style="list-style-type: none"> <li>Sending financial information by peripheral institutions to the capital in a periodic manner and consequently possibility to provide independent financial statements for each institution</li> </ul>                              |

**Table 3:** Processes and procedures of new financial management system

| processes                                  | procedures  |
|--|---|
| <b>Establishment of accrual accounting</b> | ○ To sensitize health system                              |
|  | ○ To approve necessary regulations                        |
| <b>To determine cost price</b>             | ○ To establish integrate information and education system |
|  | ○ Data analysis   |
|  | ○ To specify cost institutions                            |
|  | ○ To provide appropriate software                         |
| <b>Operational budgeting</b>               | ○ To provide with two period of fiscal statements         |
|  | ○ To specify operations of each institution               |
|  | ○ To calculate cost price of services                     |
|  | ○ To calculate cost price of operations                   |
|  | ○ To estimate next period costs considering inflation     |
|  | ○ Negotiation for operational budgeting                   |

**Table 4:** Ways of communication with stakeholders in new financial management system

| External stakeholder   | Way to Communication                         |
|--|--|
| <i>Policy-makers</i> (president and cabinet council, Islamic consultative assembly , ...)  | Periodic reports, to hold meetings in common |
| <i>Regulators</i> (National Financial Court, the Ministry of Economic and Financial Affairs and the State Organization for Auditing) | Periodic reports, to hold meetings in common |
| <i>Resource allocators</i> (Islamic consultative assembly, ...)  | Periodic reports, to hold meetings in common |
| <i>Service providers</i> (physicians, nurses and ...)  | Periodic reports                             |
| <i>Users</i> (people)  | Periodic reports, media                      |
| <i>NGOs</i> (council of accountants, ...)  | Periodic reports, to hold meetings in common |



**Fig. 1:** Structure of new financial management system of health sector in Iran

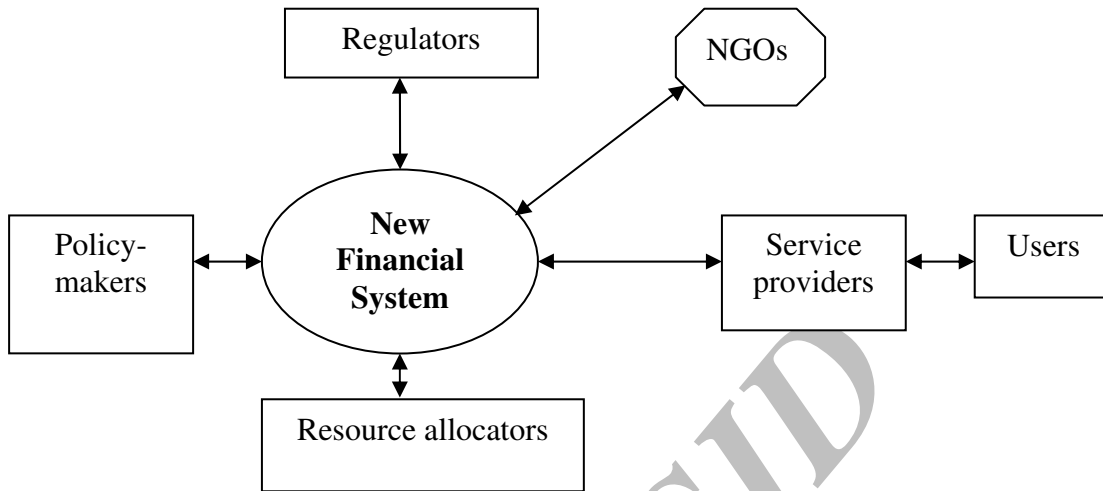


Fig. 2: External environment of new financial system

## Discussion

In Iran, since 2003, a pilot project was performed at 40 hospitals to establish operational budgeting (4). Then, since 1385, project of designing and establishment of new financial management system of health sector has been initiated based on the experiences and almost all-expert opinion related to this area. The strength of the project was to employ almost all stakeholders opinion specially accountants and experts from several provinces of the country, experience of pilot project and commitment of policy-makers. Nevertheless, need for extensive education of human resources and change of managers and their commitment will be the future challenges.

In every section that provides an access to information and financial reports, in order to make decisions on this basis, it is essential to have an accurate management and prevention of wastage of resources, as well as an elevation in the internal control level in the section. After the discussion and the survey of obstacles, including the problems present in the financial section of the health and treatment and a study of the experiences of other countries, the root of the obstacles relevant to the management of

financial resources in health sector in four intricate and fundamental modes of executing cash accounts in contrary to accrual accounts,, where there is an intense weakness in the internal controls due to the lack of periodic reports, so as to define the source of deviations, the lack of a mechanized system and ultimately, the absence of a comprehensive monetary plan in the Country, in particular, was specified in this section and with management and timely intervention, in concern with this process of reversed and disoriented cycle, with the help of other organizations and relative authorities, the problems and losses that will be inevitable in the future should be confronted with, in the hope that with the help of all those concerned, this cycle can be brought to a natural condition in the near future.

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