



**REPUBLIC OF SERBIA
MINISTRY OF FINANCE
- Central Harmonization Unit -**

**CONSOLIDATED ANNUAL REPORT
ON THE STATUS OF PUBLIC INTERNAL FINANCIAL CONTROL IN THE
REPUBLIC OF SERBIA IN 2021**

Belgrade, July 2022

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List of Abbreviations:

AP – Action Plan	audit activity and reporting in the public sector
APV – Autonomous Province of Vojvodina	IBBs – Indirect Budget Beneficiaries
AP KiM – Autonomous Province of Kosovo and Metohija	IIA – Institute of Internal Auditors
AP PIFC – 2019–2020 Action Plan for the implementation of the Public Internal Financial Control Strategy in the Republic of Serbia for the 2017–2020 period	INTOSAI – International Organization of Supreme Audit Institutions
BBs – Budget Beneficiaries	IPA – Instrument for Pre-accession Assistance of the European Union
BSL – Budget System Law	ISO – International Organization for Standardization (ISO)
CAR – Consolidated Annual Report	IT – Information Technologies
CHU – Central Harmonization Unit	BSL – Law on the Budget System
CIA – Certified Internal Auditor	LPS – Law on the Planning System
COSO – Committee of Sponsoring Organizations of the Treadway Commission (COSO)	LSG – Local Self-Government
DBBs – Direct Budget Beneficiaries	MFIN – Ministry of Finance
EC – European Commission	MPALS – Ministry of Public Administration and Local Self-government
EU – European Union	MSI – Military Social Insurance
FMC – Financial Management and Control	MSIO – Mandatory Social Insurance Organizations
FMC Manual – Financial Management and Control Manual	NAPA – National Academy for Public Administration
FMC Rulebook – Rulebook on common criteria and standards for the establishment and functioning of and reporting on financial management and control in the public sector	NES – National Employment Service
GenSec – Serbian Government General Secretariat	NHIF – National Health Insurance Fund
GIZ – German International Cooperation Organization - Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	Pandemic – <i>COVID-19</i> pandemic caused by the <i>SARS-CoV-2</i> virus
HRMS – Human Resources Management Service	PAR – Public Administration Reform
IA – Internal Audit	PAR Strategy – Public Administration Reform Strategy
IA Rulebook – Rulebook on common criteria for implementing and standards and methodological guidelines for internal	PE – Public Enterprises
	PFB – Public funds beneficiaries
	PFMR Programme – Public Finance Management Reform Programme 2021–2025
	PIFC – Public Internal Financial Control
	PIFC Strategy – Public Internal Financial Control Strategy
	PLS – Public Legislation Secretariat
	PPS – Public Policy Secretariat
	PUC – Public Utility Companies

RELOF 2 – Local Government Finance Reform project (RELOF)

RS – Republic of Serbia

Rulebook on Certification – Rulebook on the conditions and procedure of taking the exam for certified internal auditors in the public sector

Rulebook on professional development – Rulebook on professional development of certified internal auditors in the public sector

SAI – State Audit Institution

SECO – Swiss State Secretariat for Economic Affairs

SIDA – Swedish International Development Cooperation Agency

SIGMA – Support for Improvement in Governance and Management (joint initiative of the OECD and the European Union)

UNDP – United Nations Development Programme

WG – Working Group

EXECUTIVE SUMMARY

The Consolidated Annual Report (CAR) on the Status of Public Internal Financial Control (PIFC) in the Republic of Serbia is submitted to the Government of Serbia every year by the finance minister pursuant to Art. 83 of the Budget System Law¹ (BSL). The BSL envisages that the CAR shall be prepared by the Central Harmonization Unit (CHU), as an organizational unit of the Ministry of Finance (MFIN) of the Government of Serbia, by consolidating the individual annual reports submitted by public funds beneficiaries on the financial management and control system, i.e., on internal audits and internal audit activities performed.

The purpose of the CAR is to publish the information collected about the activities implemented and results achieved by PFBs in the process of implementing and developing the FMS system and IA function. The objective of the report is to highlight both the strengths and weaknesses of the system, whilst also providing recommendations for its further development and improvement.

The CAR also contains information on monitoring of implementation of recommendations made by the EC in its Report on Serbia's progress in the EU accession process, and the results achieved, recommendations made in the CAR for the previous year.

The CHU reporting application is now fully functional and has been additionally upgraded with the introduction of the electronic document signing options. Electronic reporting is becoming more and more successful. The high rate of reporting on the state of the FMC system recorded in the previous year saw further growth. Observed as a separate category, 93.48% of priority PFBs² submitted their reports. The total expenditures and outlays of all direct budget beneficiaries included in this CAR make up 98.95% of the total expenditures and outlays of the RS budget for 2021. 99.97% of the total revenues of the PE group are related to PEs at the central level of the RS, which have submitted a report on the FMC system. Authorities and services of the province and local self-government units continue to largely fulfil their legal obligations regarding the submission of reports, at least when it comes to the percentage coverage of the total budget. The APV institutions that submitted their FMC report manage 99.96% of the total budget of the province. The cities that submitted the FMC report manage 96.98% of the total realized budget expenditures of cities, and the municipalities that submitted the FMC report manage 82.79% of the total realized budget expenditures of municipalities.

The analysis of the annual reports included the elements of the organizational establishment of the FMC system and the results of the PFBs' self-assessment in the area of application of the COSO principles. Within the group of PFBs that regularly report, we evaluated the observed trends related to the above-mentioned parameters. We also carried out a qualitative analysis of open issues. The analysis was performed by PFB category and public sector tiers (central and local), with a special focus on the group of priority PFBs.

The Statement on Internal Control was an integral element of the FMC report in this cycle as well. About 68% of Heads of PFB signed the Statement confirming that there are no perceived weaknesses in the internal control system. On the other hand, about 32% of Heads of PFB

¹ RS Official Gazette No 54/2009, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 - correction, 108/13, 142/14, 68/15 – as amended, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20 and 118/21.

² For the purposes of this report, in presenting the status of FMC, the "priority" PFBs group is defined as the group of ministries, MSIO, PEs and cities.

signed a statement confirming that the internal control system is functional despite the perceived weaknesses, and that these weaknesses will be eliminated as soon as possible.

The PFBs have continued reporting on the management of irregularities. The vast majority of PFBs (94.16%) had no confirmed suspicions of any irregularities in 2021. Confirmed irregularities were mostly resolved internally (63.11%).

This CAR analyses in detail the issue of the organizational establishment of the FMC system in priority PFBs, focusing on the business process maps, risk management strategies and risk registers. The data indicate that certain ministries, public enterprises and cities have yet to prepare/adopt some of the above-mentioned documents, hence, they need to remedy the identified gaps as soon as possible. Ministries, PEs and cities hold special accountability for establishing and developing their FMC system, bearing in mind the size of their budgets and overall capacities, and their broader social significance and general influence in Serbia.

As usual, the status of the FMC system is assessed from the perspective of the COSO internal control framework. To a great extent, the key aspects of the control environment are in place (integrity and ethical values, mission and vision as important prerequisites, efficient organizational structure, as well as clear reporting lines). Significant progress was noted in the risk management sphere, nevertheless, additional efforts must be invested to develop this segment further. There is room for improvement in the areas of defining control activities, as well as in the sphere of IT infrastructure project planning. Despite the fact that some control mechanisms are already built into the business processes, we can conclude that the updating and improving of business processes or revising control activities that are in the service of risk management are not performed regularly in practice. The information and communication systems are the best segment of the FMC system with relatively high scores in all PFB categories. On the other hand, the aspect most in need of improvement, which recorded the highest share of average values, is monitoring and evaluation.

Overall, we have witnessed progress when it comes to the scores related of the application of the COSO framework principles at PFBs. As in the previous years, MSIOs, PEs and ministries with administrative bodies are once again leaders in the development of the FMC system. That said, all public sector organizations must make additional and constant improvements in this sphere, especially when it comes to certain local level PFBs. **The lack of knowledge and skills of managers and employees was identified as a key obstacle in the process of establishing and developing the FMC system.**

The major share of the most important PFBs are submitting their reports on implemented audits and internal audit activities. The scores indicate that a functional internal audit has been established in entities that account for over 83% of the budget of direct budget beneficiaries (DBBs) at the central government level, MSIOs, the Autonomous Province of Vojvodina (APV), cities, and PEs at the central level.

The total number of PFBs with a normatively established internal audit function increased by 11% relative to 2020. The functional establishment of the IA function also registered a 4% growth. The number of systematized and filled IA positions registered a slight increase – by 2% in 2021 relative to the previous year, so we can conclude that the IA function is continuing to record a positive growth trend across all indicators. That said, we have seen a slowdown in the growth of both total systematized and filled positions, mainly because of the attrition of internal auditors, coupled with weak influx of new staff.

The general conclusion regarding the establishment of IA in the public sector is that, to the extent of existing capacities, the number of IA established is satisfactory, but still insufficient. **We should point out that the lack of IA staff poses a major problem. The main reason for this lies on the one hand, in the managers' poor awareness of the importance and benefits they can reap from the IA function, and on the other hand, in the limited opportunities for PFBs to hire adequate IA staff.**

Based on all relevant documents and analyses³, recommendations are provided in the CAR for the future development and improvement of the PIFC system. Recommendations are provided in the FMC and IA area as well, and are intended for PFBs, especially DBBs (ministries, cities, etc.).

The CHU is the third PIFC pillar in RS. The results and weaknesses identified in this report confirmed that the strategic planning for the period up to 2025 was well done and the implementation of activities that will contribute to the improvement of the PIFC is already underway and is integrated within the valid planning documents but also through the regular activities of the CHU.

With project support, numerous activities in the field of PIFC were realized throughout 2021, with the primary focus still on strengthening PIFC concepts at PFBs.

Furthermore, the CHU is engaged as an indispensable partner and facilitator of all activities related to the improvement of managerial accountability in Serbia's administrative culture.

In the latest EC progress report for Serbia, progress in Chapter 32 was assessed as good. The CAR presents a detailed overview of the status of the recommendations and concrete progress in their implementation.

³ Analysis of PFBs' annual reports, information collected during the process of reviewing the quality of the FMC system, reviewing the quality of IA activities at PFBs, based on progress in achieving goals from strategic documents (PIFC Strategy, PFM Programme, PAR Strategy) and the implementation of EC recommendations and previous reports on the status of PIFC.

I INTRODUCTION

1.1 Purpose and objective

The Consolidated Annual Report on the Status of Public Internal Financial Control is intended to provide information to the Government of Serbia and public about the activities and performance of public fund beneficiaries (PFBs) in the process of introduction, development and strengthening of the financial management and control system and internal audit function. In addition, the purpose of this report is not only to highlight the strengths and weaknesses of the PIFC system, but also provide recommendations for its further development and improvement.

1.2 Methodology of the Consolidated Annual Report

Pursuant to Art. 83 of the Budget System Law, the CAR is prepared by the Central Harmonization Unit, as an organizational unit of the Ministry of Finance, by integrating the individual annual financial management and control system (FMC) reports, and annual reports on performed internal audits and IA activities submitted by the PFBs, into a single consolidated report. The individual reports are submitted electronically, through the CHU application. The Heads of PFB are required to submit a signed Internal Control Statement which is an integral part of the FMC System Annual Report and is prepared based on it.

In accordance with the bylaws (IA Rulebook and FMC Rulebook), the CHU prepared an appropriate report form, in the form of a questionnaire, modelled on the templates in use in the EU and the US.

The annual report on the FMC system, in the self-assessment section, consists of 76 questions grouped in five areas (five components of the COSO model), which make up the internal control framework. The internal control self-assessment scale entails the selection of one of the five offered answers ranging from “NO” to “YES” (on a scale from 1 to 5 where 1 is “NO” and 5 is “YES”), depending on the stage of development/implementation of the FMC system. Certain answers (mainly the “YES” and “NO” answers) must also be supported by additional information. Annual FMC reports, with the exception of the self-assessment section, also comprise segments that deal with issues of organizational establishment of the FMC system, management of irregularities, recommendations from the CAR for the previous year, as well as the functioning of the system in conditions of the pandemic.

The questions in the annual report on audits and IA activities in 2021 were improved relative to last year’s form. For detailed information on internal audit, please refer to the [2.2 Internal Audit](#) section.

For ease of reference, Table 1 provides an overview of the classification of PFBs.

Table 1. Classification of PFBs

Tier/level	PFB Category	PFB
Central/national	Ministries with their administrative bodies	Ministries, administrations, directorates. and inspectorates under ministries.
	MSIO	NHIF, MSI Fund, NPDIF and NES.
	Direct budget beneficiaries (other DBBs – except ministries with constituent administrative bodies)	The RS National Assembly and its offices; Government of Serbia (GoS) departments and offices; special organizations, independent and autonomous state agencies; judiciary agencies that are direct budget beneficiaries; administrative districts...
	Indirect budget beneficiaries (IBBs)	Schools, faculties, judicial authorities that are not DBBs, social welfare centres, cultural establishments...
	Public enterprises (PEs)	Public enterprises and other legal entities performing activities of public interest subject to the Law on Public Enterprises.
	Other PFBs (except public enterprises)	Public agencies, organizations and legal entities performing delegated, development, technical, and regulatory affairs of public interest, as well as other legal entities controlled by the RS, either directly or indirectly (not including PEs).
	NHIF funds beneficiaries	Healthcare facilities and pharmacies
Local	Direct budget beneficiaries (DBBs)	Local bodies and services (provinces and local government units)
	Indirect budget beneficiaries (IBBs)	Cultural institutions, preschool institutions, community centres...
	Other PFBs	Public utility companies and other legal entities controlled by the AP or LSGs, directly or indirectly.

The above classification is based on the List of PFBs published by the Treasury Administration⁴, whilst also taking into account EC requirements under Chapter 32 – Financial

⁴ Please refer to the Rulebook on establishing and keeping records on public funds beneficiaries and requirements and procedure for opening and closing subaccounts of the consolidated treasury account with the Treasury Administration (RS Official Gazette No. 99/18 and 40/19).

Control⁵. Considering the special importance of the ministries and their constituent administrative bodies, and that of PEs at the central level, these two categories are shown separately.

Most indicators for 2021 are disaggregated by PFB category. Especially when it comes to the report on the status of the FMC system and given that the list of PFBs submitting reports and the set of questions itself differ from year to year, a direct comparison of results presented in previous CARs is not possible.

The individual and consolidated reports provide the information base for managing internal control systems at the macro and micro level. Bearing in mind that the results are based on self-assessment, the objectivity of the indicators should be considered with some reservations.

In addition to the foregoing, the CAR also contains information related to the monitoring of the implementation of recommendations made in the framework of the EC's annual reports on Serbia's progress and performance in the EU accession process, the monitoring of the implementation of recommendations presented in the CAR for the previous year, along with an overview of the achievement of objectives in the relevant planning documents.

⁵ Negotiation Chapter 32 – Financial control includes four main policy areas: PIFC, external audit, protection of the EU's financial interests and protection of the Euro from counterfeiting.

II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

The BSL defines PIFC as a comprehensive system of measures for the management and control of public revenues, expenditures, assets and liabilities established by the Government through public sector organizations to ensure that the management and control of public funds, including foreign funds, is compliant with the regulations, the budget, and principles of sound financial management, i.e., the principles of economy, efficiency, effectiveness and transparency.

The PIFC system includes the following three basic elements:

1. financial management and control;
2. internal audit; and
3. central harmonization unit for financial management and control and internal audit.

The PIFC system primarily relies on managerial accountability, defined by the BSL as the obligation of executives in public fund beneficiaries at all levels to act in adherence to the law and the principles of economy, effectiveness, efficiency and openness, and to be accountable for their decisions, actions and results to the person or authority who appointed them or delegated the responsibility to them.

Serbia's existing legal framework is based on international internal control standards. The FMC Rulebook states that the elements of the financial management and control system are defined in accordance with international internal control standards related to standards harmonized with the INTOSAI Internal Control Standards Guidelines for the Public Sector, which includes the COSO framework. Also, the *IA Rulebook* prescribes the obligation to comply with the international internal audit standards⁶. The regulations governing the PIFC area are listed in [Annex 1 – Regulatory Framework and International Standards](#).

It should also be noted that the implementation of the PIFC is a benchmark for closing the accession negotiations on Chapter 32 - Financial Control.

2.1 Financial Management and Control

2.1.1 Concept and definition

FMC is a system of policies, procedures and activities established, maintained and regularly updated by the Head of PFB to provide reasonable assurance, based on risk management, that the PFB's objectives will be achieved in accordance with the principles of lawfulness, economy, efficiency, and effectiveness.

The FMC system includes the following interrelated components, defined in line with international internal control standards, contained in the COSO framework:

- 1) control environment;
- 2) risk assessment;
- 3) control activities;
- 4) information and communication;

⁶ International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)

5) monitoring (supervision) and evaluation of the system.

2.1.2 Reporting rate

For the year 2021, a total of 2,982 PFBs submitted their annual reports on the FMC system and all of the received reports are included in the analysis. The high reporting rate recorded in the previous reporting period (2,578 PFBs) has seen further growth in this reporting period.

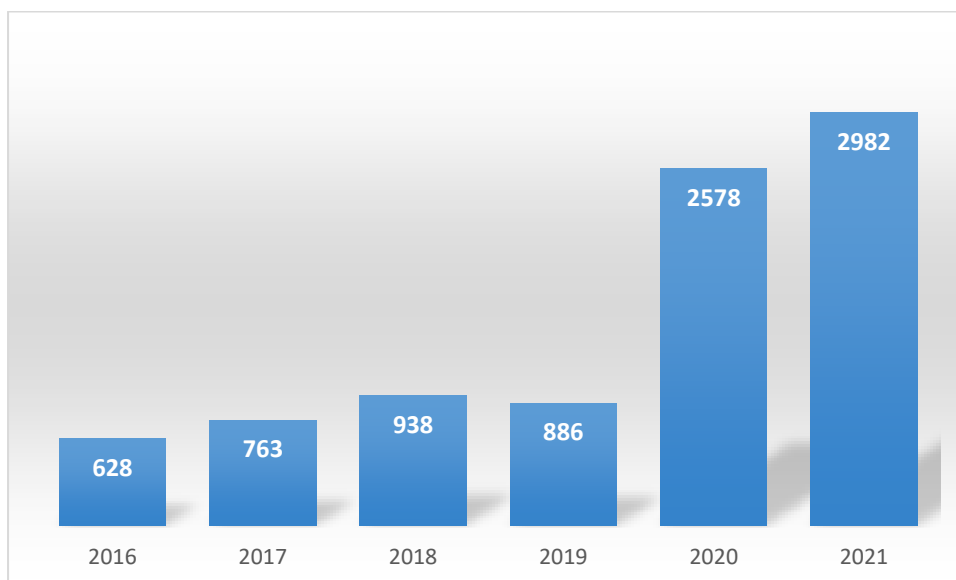


Figure 1. Number of processed annual FMC reports submitted by PFBs, by reporting year

Table 2 provides an overview of the priority PFBs that are included in the CAR.

Table 2 - Overview of FMC reports submitted by priority PFBs integrated in the CAR for 2021

PFB category	Number of PFBs that submitted their reports	Reporting rate
Ministries	21	100%
MSIO	4	100%
Autonomous and independent state authorities	8	100%
Government services and offices and special organizations	29	87.88%
Judicial bodies (direct budget beneficiaries)	11	100%
PEs at the central level	36	92.31%
AP Vojvodina institutions	25	96,15%
Cities	25	89.29%
Municipalities	96	82.05%

The total expenditures and outlays of all DBBs at the central level, (ministries with their administrative bodies, judicial bodies, directorates, offices, agencies, institutes, services...), which are included in the CAR for 2021, account for 98.95% of the total expenditures and outlays of Serbia's budget for 2021.

Total expenditures and outlays of all DBBs at central level (ministries with their constituent administrative bodies, judiciary, directorates, offices, agencies, institutes, services...), which are included in the CAR for 2021, account 98.95% of the total expenditures and outlays of the RS budget for 2021.

Cities that submitted their FMC reports manage 96.98% of the total realized expenditures of the budget cities, while the municipalities that submitted their FMC reports manage 82.79% of the total budget of municipalities⁷. PEs at central level that submitted their FMC reports manage 99.97% of total revenues of the PE group. Other PFBs at local level (PUCs) that submitted their FMC reports manage 84.61% of total revenues in this category. AP Vojvodina institutions that submitted their FMC reports manage 99.96% of the total provincial budget.

The remaining PFBs that submitted the FMC report are relatively small organizations with smaller budgets or fewer employees, and their relevance for the overview of the PIFC system in Serbia is proportionally smaller.

Observed as a separate category, 93.48% of priority PFBs⁸ submitted their reports.

Based on the foregoing data, we can conclude that the major share of the most important public sector institutions in Serbia are reporting on their FMC systems. The high reporting rate provides the basis for drawing relevant conclusions on the status of FMC in Serbia's public sector.

2.1.3 Introduction of the FMC system

Elements of the introduction and development of the FMC system

The FMC system entails the organizational introduction, implementation and development, based on the activity plan adopted by the PFB.

The introduction of the FMC at organizational level, as the initial step in the process, consists of the following activities:

- appointment of an FMC manager;
- establishment of a WG tasked with introducing and developing the FMC system.

The organizational establishment of the FMC system depends on the size, number of employees and other specificities of the PFBs. When establishing the system, the PFB should first appoint an FMC manager. or establish a WG that will deal with all key issues related to the introduction and development of this system. The purpose of establishing the WG is to coordinate specific activities in all organizational units, to reach a common opinion and position with regard to the description of the business processes, the identification and management of risks, as well as the establishment of controls. Preferably, the members of the WG should be senior managers and experts with knowledge and experience in key areas of the PFB's activity, or people who are well acquainted with the business and individual business processes within the organization. The WG is responsible to the manager for supporting the introduction and development of the FMC system.

⁷ Excluding the territory of AP KiM. Considering that the organizations belonging to AP KiM have been working in difficult conditions and specific circumstances since 1999, their functioning is regulated by specific provisions and type of organization. In the light of the foregoing, the organizations in AP KiM were not able to submit their annual FMC reports.

⁸ For the purposes of this report, to present an overview of the status of FMC in PFBs, the category of "priority" PFBs is defined as the group of ministries, MSIOs, PEs, and cities.

The further implementation and development of the FMC system entails the following steps:

- preparing an action plan;
- adopting a risk assessment strategy;
- setting the PFB's mission, vision and key objectives;
- compiling a list of key processes (subprocesses) and providing a description of activities under each of them;
- drawing a map of business processes;
- documenting business processes and developing a flow chart;
- identifying risks at the level of business processes, assessment of risks and their ranking, decision-making on risk response, and establishment of controls (risk management)
- evaluation of internal control elements;
- compiling an overview of established controls, taking into account the most significant risks;
- compiling a list of the most important processes that are not defined in writing;
- analysing the existing and necessary controls, and making a decision on the necessary previous and subsequent controls;
- adoption of a plan for establishing necessary and eliminating unnecessary controls;
- monitoring the implementation of the plan;
- preparing an annual report on the establishment of the FMC system.

Although this segment of the CAR is devoted to the documenting element of the establishment and implementation of the FMC system, it is precisely the Annual Report on the state of the FMC system with the related Statement on Internal Control submitted to the CHU and the action plans for improving identified weaknesses that are a key step in the further development of an organization's FMC system.

Evaluation of the elements of FMC system introduction

In the ***general section of the questionnaire***, in the segment related to the introduction of the FMC system, PFBs enter data pertaining to the appointment of an FMC manager, establishment of a WG tasked with dealing with issues related to the introduction and development of the system, adoption of the action plan, compiling a map of business processes, adopting a risk management strategy, defining key risks, etc. For each affirmative answer, the PFB is required to provide a verification source, or a document that corroborates their statement. If the answer is negative, they are required to state the reasons.

Table 1 in Annex 2 provides data related to the establishment of the FMC system, by PFB category. The data in this table reveal that 65.79% of all PFBs that submitted annual reports appointed an FMC manager, while 62.61% established a WG for the introduction and development of the FMC system. The situation is still slightly better at local level (70.76% and 65.79%, respectively) than at central level (63.72% and 60.20%, respectively). However, we should point out that indicators in the segment related to the establishment of the FMC system have recorded a significant growth, especially when it comes to the IBB category at the central level, where 62.81% have a FMC manager, and 59.22% have established a WG. The group of IBBs at the central level that regularly submit their reports recorded a 44.43% growth (FMC manager appointed) and 53.87% (WG founded).

The MSIO category continues to lead, considering that all organizations either have an FMC manager or an FMC working group. A relatively high share was also recorded in the PE group

(80.56% and 83.33%, respectively). On the other hand, ministries with their administrative bodies (69.77% and 72.09%, respectively), other DBBs at the central level (63.89% and 56.94%, respectively), and above all beneficiaries of the NHIF funds (59.16% and 53.93%, respectively), must pay more attention to this aspect of management. In local self-government bodies and PUCs at local level, about 4/5 entities have FMC managers or WGs.

An action plan (AP) for the establishment of the FMC system was adopted by 47.18% of all PFBs, specifically, 42.51% at central and 58.36% at local level. While 100% of organizations in the MSIO category have adopted an action plan, in the case of ministries with their administrative bodies, the situation is unsatisfactory (41.86%). On the other hand, about two thirds of PEs at the central level, and DBBs and PUCs at local level have adopted an AP.

We found that 39.24% of all PFBs (33.14% at central level and 53.81% at local level) mapped their business processes. Apart from the MSIO category (100%), only PEs at the central level (75.00%), local self-government bodies (72.19%) and other PFBs at local level – PUCs (70.34%) report satisfactory indicators. An increase in the percentage was recorded when it comes to the category of ministries with constituent administrative bodies (a 55.81% share, a 14.29% increase for entities that report regularly), but despite this, the situation cannot be described as favourable. Despite the observed 16.07% growth, still only a little more than a third of the beneficiaries of NHIF funds developed business process maps. On the other hand, despite the small percentage of IBBs at central and local level with business process maps (28.92% and 37.14%, respectively), we note that a substantial growth has been recorded in this segment (by 110.05% and 58.02%, respectively).

Overall, 34.22% of all PFBs (33.57% at central level and 36.45% at local level) that do not have business process maps, have embarked on the task of compiling a list and describing business processes, as a preliminary step. Organizations from the “Other PFBs without PEs” (71.43%), as well as PEs (66.67%) in most cases started developing their business process maps, while in the category of ministries with their administrative bodies slightly less than half (47.37%) started these activities. At the local level, about 60% of PUCs and 50% of local self-government bodies have embarked on these activities. More than 60% of users of NHIF funds who have not yet developed business process maps need to start the process of listing and describing their business processes.

A risk management strategy was adopted by 49.30% (44.75% at central and 60.18% at local level), and a risk register was created by 42.96% of PFBs (38.71% at central and 53.13% at local level). Once again, organizations from the MSIO category are a good practice example, as they are the only ones to have fully established the basis for good risk management. Conversely, the situation is unfavourable when it comes to other DBBs at central level (41.67% and 43.06%). About two-thirds of organizations from the category of ministries with constituent administrative bodies (67.44% and 62.79%) and PEs (69.44% in both cases) adopted the aforementioned strategy and created a risk register. Although the indicators are not fully satisfactory, the share of regularly reporting ministries with constituent administrative bodies that have a risk management strategy and a risk register in place has increased by 16.00% and 17.39%, respectively, which is encouraging. When it comes to local self-government bodies (DBBs at local level), 76.92% have adopted a strategy, and 67.46% have created a risk register. Taking into account all PFBs, the 37.5% increase in the number of organizations that regularly report that have an adopted risk management strategy and a 40.49% increase in those that created a risk register is seen as a positive signal.

The share of PFBs that established internal controls in business processes based on consideration of the most significant risks stands at 53.86% (49.98% at central and 63.14% at local level). In the case of ministries with constituent administrative bodies, this share amounts to 74.42%. The percentage is significantly higher in PE (86.11%), while the beneficiaries of NHIF funds (68.06%) and especially the remaining DBBs excluding ministries with administrative bodies (58.33%) lag behind. However, a 14.71% increase in other DBBs at central level gives cause for optimism. At the local level, about three quarters of local self-government bodies and PUCs have established internal controls in business processes based on consideration of the most significant risks.

Article 21a of the Regulation on principles for internal organization and systematization of workplaces in ministries, special organizations and government services⁹ prescribes the obligation for ministries, bodies within ministries and special organizations to designate an internal unit for planning documents and management support. In 2021, 30.23% of organizations from the category of ministries with administrative bodies and 35.29% of special organizations fulfilled this obligation.

While considering the data mentioned in this part of the text, it is necessary to bear in mind that the total average values (for all PFBs) are significantly impacted by the results of IBBs, which account for 70.99% of all PFBs that submitted their reports (79.41% of PFBs at central and 50.85% of PFBs at local level). The effect is in most cases negative since the level of establishment of the FMC system in IBBs is generally lower. On the other hand, the significant growth recorded can to a great extent be attributed precisely to the results of IBBs.

Introduction of the FMC system at organizational level in priority PFBs

Ministries, MSIOs, PEs and local government bodies at city level have a special responsibility to establish and develop the FMC system, considering the volume of their budget and overall capacities, i.e., their broader significance and general impact on developments in Serbia. In the case of ministries and cities, they are expected to provide concrete support in the process of developing the FMC system in IBBs under their responsibility. As already mentioned, the largest increase in the number of submitted reports was identified in IBBs, considering that the latter face the greatest challenges in this sphere, primarily because of limited internal capacities.

Having regard to the foregoing, hereinafter the CAR presents a more detailed overview of the establishment of the FMC system in individual PFBs in the aforementioned four categories. The major focus is on the following three basic documents: 1) business process map, 2) risk management strategy and 3) risk register.

a) The MSIO category is taking the lead in all segments related to the introduction of FMC at organizational level, with a 100% share of beneficiaries.

b) Considering the importance of ministries, they are required to meet somewhat higher standards than the other PFB categories. With this in view, the situation can be described as unsatisfactory, due to the following reasons:

- Seven ministries failed to draw up business process maps:
 - 1) Ministry of Internal Affairs;
 - 2) Ministry of Rural Welfare;

⁹ Regulation on the principles of the staff establishment and internal regulation in ministries, special organizations and government services (RS Official Gazette No. 81 of 4 September 2007 - revised text, No. 69 of 18 July 2008, No. 98 of 12 October 2012, No. 87 of 4 October 2013, No. 2 of 16 January 2019, and No. 24 of 19 March 2021)

- 3) Ministry of Family Welfare and Demography;
- 4) Ministry of Human and Minority Rights and Social Dialogue;
- 5) Ministry of Education, Science and Technological Development;
- 6) Ministry of Agriculture, Forestry and Water Management and
- 7) Ministry of Foreign Affairs.

Of the foregoing, only the Ministry of Internal Affairs, Ministry of Education, Science and Technological Development and Ministry of Agriculture, Forestry and Water Management started compiling a list of business processes with descriptions.

- The following ministries failed to adopt a risk management strategy:
 - 1) Ministry of Internal Affairs;
 - 2) Ministry of Rural Welfare;
 - 3) Ministry of Family Welfare and Demography;
 - 4) Ministry of Human and Minority Rights and Social Dialogue;
 - 5) Ministry of Agriculture, Forestry and Water Management and
 - 6) Ministry of Foreign Affairs.
- The following ministries failed to draw up a risk register:
 - 1) Ministry of Justice;
 - 2) Ministry of Internal Affairs;
 - 3) Ministry of Rural Welfare;
 - 4) Ministry of Family Welfare and Demography;
 - 5) Ministry of Human and Minority Rights and Social Dialogue;
 - 6) Ministry of Education, Science and Technological Development;
 - 7) Ministry of Agriculture, Forestry and Water Management and
 - 8) Ministry of Foreign Affairs.

Almost a third of the ministries (6 out of 21) have none of the three basic indicators of an established FMC system, in other words, they neither have a business process map, nor a risk register, nor a risk management strategy. The following belong to this group:

- 1) Ministry of Internal Affairs;
- 2) Ministry of Rural Welfare;
- 3) Ministry of Family Welfare and Demography;
- 4) Ministry of Human and Minority Rights and Social Dialogue;
- 5) Ministry of Agriculture, Forestry and Water Management and
- 6) Ministry of Foreign Affairs.

c) Out of 36 PEs at central level that submitted their reports, the following 9 do not have a business process map:

- 1) PE Fruska Gora National Park;
- 2) Serbian Railways a.d.
- 3) PE Stara Planina;
- 4) PE Mreža Most;
- 5) PE Resavica Coal Mines;
- 6) State Lottery of Serbia d.o.o.;
- 7) Srbijavode Public Water Management Company;
- 8) Metohija d.o.o. Belgrade and
- 9) Golubački Grad Fortress.

Of the listed PFBs, the following 6 started compiling a list of business processes with descriptions:

- 1) Serbian Railways a.d.;
- 2) PE Stara Planina;

- 3) PE Resavica Coal Mines;
- 4) State Lottery of Serbia d.o.o.;
- 5) Srbijavode Public Water Management Company;
- 6) Metohija d.o.o. Beograd.

The following eleven PEs did not adopt a risk management strategy:

- 1) Serbia Airports d.o.o.;
- 2) PE Fruška Gora National Park;
- 3) Serbian Railways a.d.;
- 4) PE Stara Planina;
- 5) PE Srbijavode;
- 6) PE Mreža Most;
- 7) Serbian State Lottery d.o.o.;
- 8) PE Elektroprivreda Srbije;
- 9) Elektrodistribucija Srbije d.o.o.;
- 10) Golubački Grad Fortress and
- 11) Srbija Voz a.d.

The following 11 PEs did not compile a risk register:

- 1) Transportgas Srbija d.o.o.;
- 2) PE Fruška Gora National Park;
- 3) Serbian Railways a.d.;
- 4) PE Stara Planina;
- 5) PE Srbijavode;
- 6) PE Mreža Most;
- 7) State Lottery of Serbia d.o.o.;
- 8) Public Enterprise for Shelters;
- 9) PE Elektroprivreda Srbije;
- 10) Golubački Grad Fortress and
- 11) Srbija Voz a.d.

Based on the foregoing data, we can see that the following 7 PEs (19.44%) did not satisfy any of the three basic requirements of the process of establishing the FMC system:

- 1) PE Fruška Gora National Park;
- 2) Serbian Railways a.d.;
- 3) PE Stara Planina;
- 4) PE Srbijavode;
- 5) PE Mreža Most
- 6) Serbian State Lottery d.o.o. and
- 7) Golubački Grad Fortress.

The companies listed above, in particular the large systems, must invest appropriate efforts to remedy the identified shortcomings. It should also be noted that the following public companies failed to meet their statutory obligation to submit annual reports on the FMC system:

- 1) PE Kopaonik National Park;
- 2) Nature Park Mokra Gora d.o.o. and
- 3) PE Šar Mountain National Park.

d) At the local government level, i.e., in the DBBs in the 25 cities which submitted their reports, the situation regarding the basic components of the organizational establishment of the FMC system is as follows:

- The following cities did not map their business processes:
 - 1) Kruševac;
 - 2) Leskovac and
 - 3) Valjevo

- The following cities started the process of mapping and describing their business processes:
 - 1) Kruševac and
 - 2) Leskovac.

- The following cities did not adopt a risk management strategy:
 - 1) Novi Pazar;
 - 2) Pančevo and
 - 3) Vršac.

- The following cities do not have a risk register in place:
 - 1) Novi Pazar;
 - 2) Pančevo;
 - 3) Vršac;
 - 4) Zaječar;
 - 5) Valjevo and
 - 6) Niš.

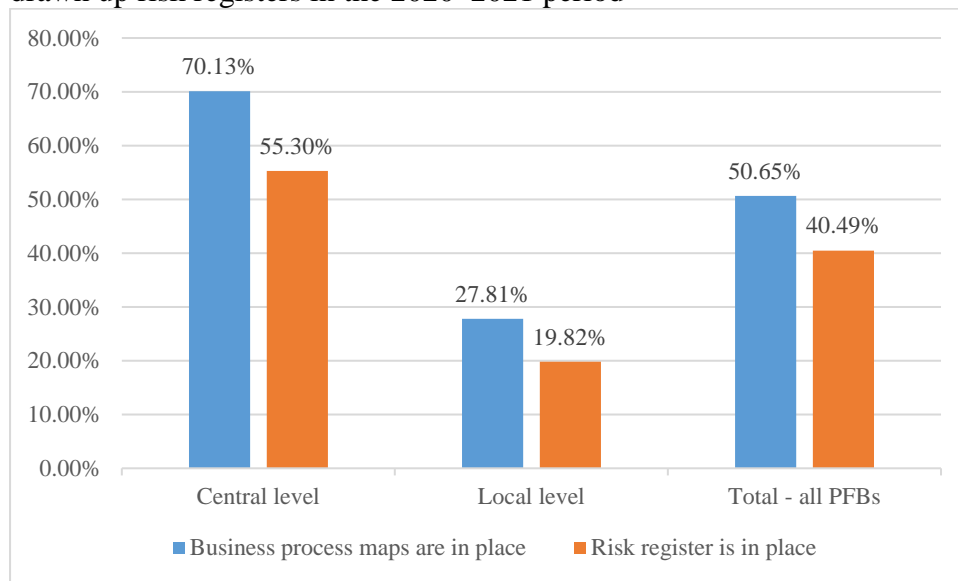
- The following cities did not submit their annual reports on the FMC system:
 - 1) Smederevo;
 - 2) Loznica and
 - 3) Prokuplje.

The aforementioned PFBs must fill the identified gaps. Also, overall, priority PFBs should improve their capacities and demonstrate the positive effects of the internal control system, in other words, become leaders in the implementation of this concept. In the case of DBBs (ministries, cities, etc.), the above is a necessary prerequisite for their adequate engagement in the development of the FMC system in the PFBs which are under their remit.

The pace of establishment of the FMC system in Serbia

The status of the organizational establishment of the FMC system was analysed by observing the group of central and local level PFBs that report regularly. By analysing the growth rate at the level of all PFBs in Serbia in the 2020–2021 period, we clearly see that there has been significant progress. An increase of 29.84% and 34.21%, respectively, was recorded in the part of the organizational establishment of the system, which entails the appointment of FMC managers and setting up WGs. Even greater progress was noted in the elements related to FMC implementation and development, such as the adoption of an action plan (46.48%) and a risk management strategy (37.57%). The number of organizations that have business process maps has grown by as much as 50.657%. A tangible increase was recorded in the compilation of risk registers (40.49%). The growth in the sphere of establishment of internal controls according to identified major risks stood at 28.68%. Figure 2 illustrates the trends (growth rates) of the share of PFBs which have developed business process maps and risk registers in the 2020–2021 period.

Figure 2. Growth rates (in %) of the share of PFBs that have mapped their business processes and drawn up risk registers in the 2020–2021 period



Analysing PFBs that regularly report on the state of the FMC system that were working to develop a list and description of business processes in 2020, we see that 31.47% of all PFBs (29.15% at central and 38.81% at local level) have mapped their business processes in 2021. At the central level, special efficiency was demonstrated by the “other DBBs” category (55.56%), while the IBB and PE categories recorded a lower conversion rate (29.97% and 28.57%, respectively). The process has been significantly slower in the users of NHIF funds (17.07%). Organizations in the category of ministries with their administrative bodies need to accelerate the process of developing business process maps as only one in five PFBs completed this process in 2021. At the local level, local government authorities (DBBs) distinguished themselves in a positive context with 46.67%. A relatively high percentage of IBBs at local level (38.18%) and PUCs (34.69%) have finalized the mapping of business processes. In drawing the final conclusions regarding the efficiency level in mapping business processes, we definitely need to take into account that the volume and complexity of business operations depend to a great extent on the specific conditions and characteristics of each individual organization.

Observing the priority PFBs as a separate category, it is imperative that they improve the level of organizational establishment of the FMC system in the coming period, above all when it comes to the preparation of key documents. The 77.91% share of organizations from this group that have completed business process maps is still not satisfactory. The development of risk registers is also urgent, because only 70.93% of priority PFBs have met this criterion. On the other hand, the 16.36% annual growth rate of the share of priority PFBs with business process maps in place is encouraging. Growth in the segment of risk registers is more moderate (5.45%).

Overall, we can expect further progress in the organizational establishment of an FMC system in line with modern standards. Our optimism is based, among other things, on the fact that a significant percentage of all PFBs (74.58%) are using the CHU’s FMC Manual. It is important to note that a 13.01% increase was recorded in this segment in the 2020–2021 period. Also, the percentage of managers and employees in charge of FMC who have attended training in this area is also growing (at an annual rate of 31.77%). The above data gain importance when we consider

that the lack of knowledge and skills of managers and employees has been identified as a key obstacle in the process of establishing and developing the FMC system¹⁰.

2.1.4 Self-assessment – the COSO framework

The degree to which the FMC system is established is assessed according to the COSO internal control framework from 2013¹¹. FMC should be seen as a dynamic and integrated system. The internal control systems and concrete solutions will inevitably differ depending on the specificities, i.e., characteristics and requirements of the individual entities. In the next section of this report, we will discuss the key results (based on the PFBs' self-assessment average scores listed in brackets) disaggregated by COSO framework questions, principles, and components, as well as by category of public funds beneficiaries listed in Section [1.2 Methodology of the Consolidated Annual Report](#). A detailed overview of the average scores is presented in the tables in [Annex 2 – Overview of average scores by COSO framework questions, principles and components, for different PFB categories](#).

1) **The control environment** refers to defined standards, processes, and structure in the organization. It ensures internal discipline and structure, and reflects the “tone at the top”, which is the backbone of the entire internal control system.

The principles of the control environment entail: a) the organization's integrity and ethical values, b) effective and independent oversight, c) an organizational structure with defined authorities and responsibilities, d) the effective management of human resources, and e) individual accountability of employees for fulfilling tasks.

a) The organization's integrity and ethical values, i.e., the level of commitment to integrity and ethical values demonstrated by the PFBs is, on the overall, satisfactory (3.90). The MSIO group has a significant advantage (4.89) relative to other PFB categories, The average score at central level (4.03) is significantly higher relative to the local level (3.60), primarily due to the weaker indicators recorded in IBBs (3.38) and other PFBs – PUCs (3.73).

A code of conduct is in place in most PFBs (4.36) and is clearly communicated (4.14), except in the case of IBBs (3.53) and other PFBs at local level (3.73). Efforts are needed in these PFBs to further improve the procedures that guarantee awareness of all stakeholders about the existence and requirements of the code of conduct. Further efforts are also needed in developing and implementing procedures for monitoring deviations from the standards defined in the code of conduct (average score for all PFBs is 3.67), except in the case of MSIOs (which reported an average score of 5). Aside from MSIOs, the ministries with constituent administrative bodies also distinguished themselves with scores above 4 in the implementation of measures to address non-compliance with the code. PEs had a slightly lower score (3.75) in this segment, and other PFBs at local level are lagging significantly behind as well. At least one measure was implemented in 2021 in approximately 25% of PFBs that stated they were implementing measures to address non-compliance with the code of conduct.

We have seen that PFBs have made slight progress in addressing the issue of conflict of interest in the reporting period. This is indicated by the average score of 3.77. This issue is treated seriously and is normatively regulated in almost all key PFBs at the central level, where the MSIOs (5.00),

¹⁰ For additional information please refer to Section 2.1.7 FMC from the perspective of public funds beneficiaries

¹¹ *Committee of Sponsoring Organizations of the Treadway Commission, “Internal Control – Integrated Framework”, May 2013.*

ministries with constituent administrative bodies (4.60) and PEs (4.11) particularly distinguished themselves. A slightly lower average score was reported by other PFBs – excluding PEs (3.76). PFBs at the central level (with an overall average score of 4.23), as well as other PFBs at local level (4.38), have defined clear rules regarding whistleblowing. There is some room for improvement in the whistleblowing segment among the remaining DBBs at central level (3.97), local self-government bodies (3.98) and IBBs at local level (3.56).

b) *Independent, competent and effective oversight* by the management/supervisory board in PFBs. This requirement is applicable to a greater extent to private sector than public sector entities. In this context, a high level of compliance with this principle is reported by MSIOs and PEs (average scores of 4 or above and 3.98, respectively), with a lower level of compliance reported among other PFBs excluding PEs (3.98).

c) *An organizational structure with clearly defined authorities and responsibilities* – on average, the overall level of the organizational set-up, reporting lines, authorities and responsibilities were highly rated by all categories of PFBs (4.27). In this segment too, the MSIO group distinguished itself with a high score (5.0), while other PFBs are taking the lead at the local level (4.38).

The biggest share of PFBs provided detailed descriptions of tasks, authorities and responsibilities of individual positions (4.81), and they also regularly adopt annual work plans (4.67). Good results in these segments are evident both at central and local level.

As regards the individual establishment of appropriate internal and external reporting lines, we see that the situation is better at central level (4.03) than at local level (3.85). Also, the impression is that the importance of regularly reporting on the FMC and IA system has not been sufficiently considered (overall average score 3.40). PEs and ministries with constituent administrative bodies are slightly better than average (4.17 and 4.12, respectively), however, everyone should follow the example of PFBs in the MSIO category (average score 5.00).

d) *Effective management of human resources* – There is room for improvement in this domain (overall average score 3.82). PFBs (especially at central level) have in most cases defined their personnel policy (MSIOs are an exception with an average score of 3.00) and established control mechanisms in the process of recruiting new employees. We should highlight the positive example of ministries with constituent administrative bodies, as well as other DBBs at central level, most of which have adopted a personnel policy (4.40 and 4.53, respectively). On the other side, additional attention should be devoted to investing in the further professional development of staff. The situation is slightly better in the segment of planning professional development of staff (average scores stood at 4.18 at central level and 3.99 at local level). Room for improvement is notable in providing periodical trainings on internal control (overall average score is 2.60). Aside from the MSIOs with an average score of 4.00, all other PFBs reported extremely low scores. The percentage of PFBs in which at least one staff member attended these trainings stood at approximately 32% in this reporting period.

The overall average score is high in the sphere of assessing the required knowledge and skills for the individual positions (4.73), which indicates that there is a sound basis for achieving the set targets of PFBs. That said, overall, the competency monitoring system through regular assessments is not at a satisfactory level (overall average score – 3.32). IBBs at local level particularly lag behind in this area, (2.41).

e) *Individual accountability of employees for fulfilment of tasks* – The setting up of a system of individual accountability for the performance of internal control tasks is, overall, relatively low (3.40). A breakdown by category of PFB reveals that ministries with constituent administrative bodies, other DBBs, as well as MSIOs have established a satisfactory accountability system in the internal control domain, with average scores exceeding 4.00. However, IBBs at central level, users of NHIF funds, PEs and in particular IBBs at local level should show greater commitment in this segment.

Having an effective performance assessment system in place and employee incentives were rated with an average score of 3.19 and 3.26, respectively. It must be noted that without setting clear criteria and indicators and introducing performance and conduct-related reward and punishment mechanisms, the internal control system cannot become fully sustainable. The IBB category at the central and local level (with average scores of 3.28 and 2.47, respectively), and local authorities (which rated motivational mechanisms with 2.91), especially stand out in a negative context.

Also, a higher level of monitoring and redistribution of the excessive workload of employees should be ensured—particularly at PFBs at the local level, IBBs at central level as well as users of NHIF funds—in order to prevent not only potential negative effects on performance, but also to prevent employees from “taking shortcuts” and skipping controls. The effectiveness of the managerial accountability system in PFBs at the central and local level leaves room for further improvement, (3.85 and 3.81, respectively).

2) **Risk management** entails the identification, evaluation and response to potential events and situations that could negatively affect the achievement of the PFBs’ objectives consequently reducing the organization’s value. The PFBs should endeavour to manage risks, i.e., risk exposure in all parts of their organizations. Sound risk management has a preventive effect on the occurrence of irregularities. Inadequate risk management, on the other hand, can jeopardize the achievement of an organization's goals, most often resulting in only a partial and/or belated achievement thereof.

The principles, i.e. requirements to be met by the organizations’ internal control systems in order to enable effective risk management include the following: a) defining clear goals and risk tolerance thresholds, b) identification and analysis of risks to the achievement of set goals, and related consideration of available management options (potential risk responses), c) fraud risk assessment and d) identification and analysis of potential changes that may significantly affect the internal control system.

a) *Setting clear objectives* – The overall average score of 4.00 suggests that PFBs largely meet the requirement related to formulating clear objectives, which is the basis for identifying and analysing associated risks. PFBs at the central level define and adopt operational objectives. Operational and strategic objectives are mutually linked, and the objectives themselves are specific, measurable, attainable, realistic and time bound (average scores in most PFBs at central level exceed 3.9). MSIOs and ministries with constituent administrative bodies at central level particularly distinguished themselves in this segment.

On the other hand, PFBs at local level should invest further efforts, especially when it comes to the requirement of establishing a connection between strategic goals and operational objectives and setting objectives according to the SMART¹² principle (3.66 and 3.52, respectively).

¹² SMART is an abbreviation (acronym) that stands for “specific, measurable, attainable, realistic and time bound“.

Slightly better results were achieved in the segment of internal communication of strategic goals and operational objectives, (overall average score 3.92). The average overall score is impacted by lower scores of IBBs at the central and local level, as well as by the increase in the number of PFBs from both groups that started submitting their annual reports.

It is encouraging that revenues and expenditures are highly aligned with the defined objectives (overall average score 4.55), which may indicate that the process of planning funds is set up in line with the goals of the organizations. The overall set of goals of the organizations is largely aligned with the relevant laws and regulations (overall average score 4.51). The management of PFBs at the central level, as well as of the group of “other PFBs” at local level, define external reporting objectives which are in line not only with statutory requirements, but also with the requirements of relevant external organizations. That said, local government bodies and services (DBBs) need to further improve this aspect (average score 3.76).

b) Identification and analysis of risks for the achievement of objectives and related available management options (potential responses to risk) Inadequate compliance with the principles related to risk identification and analysis is a serious weakness in internal control systems (overall average score 3.27). Only MSIOs and PEs reported average scores above 4.00, followed by ministries with constituent administrative bodies with a slightly lower average score (3.96). There is notable room for investing greater efforts into updating the risk register (overall average score 3.54). MSIOs (4.75), other PFBs excluding PEs at central level (4.29) and other DBBs excluding ministries (4.26) are leading the way in this segment. Of the total number of PFBs that reported that they were updating the risk register to some extent, 47.33% of organizations updated this document at least once in the reporting period.

In accordance with the results of the qualitative analysis¹³, the implementation of risk management tools and their regular updating are considered by employees as an additional workload. For this reason, resources and time are often not allocated for the implementation of these activities, and the data obtained from the PFBs on this issue are not surprising.

The process of identifying risks to key business processes and risks that could affect the achievement of specific objectives, are areas that require further improvement (overall average scores of these two areas are 3.22 and 3.23, respectively). The same applies to risk assessment in all PFBs, which had an overall average score of 3.29, except for the MSIO group, which reported an average score of 5.00. Data reveal that risks are not reported to a sufficient extent (3.11) and are not being adequately addressed at management meetings (3.31). Also, decision-making by managers in response to identified risks is unsatisfactory (3.19). In the segments mentioned herein, slightly higher scores were reported only by MSIOs, ministries with constituent administrative bodies, and PEs.

c) Fraud risk assessment – When it comes to the requirement for the mandatory assessment of the potential for fraud and corruption as a risk to the achievement of set objectives, efforts are being invested by PFBs to improve this requirement, but they are scant (overall average score 3.29). PFBs are investing some efforts, albeit insufficient, to improve this segment. At central level, this issue was approached seriously by MSIOs (average score 4.75), and by ministries with constituent administrative bodies to a lesser extent (3.84), while IBBs at central and local level recorded the lowest scores (3.15 and 3.18, respectively).

¹³ For additional information please refer to Section 2.1.7 FMC from the perspective of public funds beneficiaries

d) The *change management* principle involves reviewing and assessing changes in the external environment (regulatory, market-related, physical) as well as internal changes (operational, personnel-related, organizational). Change management as a risk management principle, is still in the development stage. Mechanisms for identifying and responding to the risks inherent in internal and external changes have yet to be fully recognized as an important factor for the achievement of the organization's goals (overall average score 3.04). In this segment, significant results were achieved only by PFBs from the categories of MSIOs (4.50), PEs (3.92), "other DBBs excluding PEs" (3.75) and ministries with constituent administrative bodies (3.65).

3) Control activities are mechanisms that consist of procedures and measures designed to bring down the risks to the achievement of set objectives to an acceptable level. They are implemented in the entire organization, at all levels and functions, by all employees, in accordance with the established business process and job description. Control activities help to ensure that everyone knows what they are supposed to do, who is tasked with implementing a specific activity/process and who is responsible. They ensure continuity of business and have a decisive influence on effectiveness, efficiency and economy of doing business. They focus on a range of different activities in the organization, such as approvals, authorizations, certifications, compliance, operational performance reviews, asset security, and segregation of duties. The following conditions must be met in order to operationalize this: a) define appropriate control activities to reduce risk, b) select and develop control activities in the field of IT infrastructure and c) implement control activities through policies and procedures.

a) When analysing the principle of *defining appropriate control activities to reduce risk*, we should bear in mind that the majority of PFBs that regularly submit their annual reports has already completed the first phase, i.e., the cycle of initial establishment of the FMC system. It was therefore to be expected that the average score of this element is about the same as for the previous element, considering the correlation between the FMC system elements.

Except for IBBs, most PFBs have established a system of selection and development of risk reduction control activities. In particular, MSIOs (4.77), ministries with constituent administrative bodies (4.27) and other PFBs at the central level (4.08) distinguished themselves in this respect. PFBs have largely prepared detailed descriptions of business processes and established control mechanisms. On the other hand, most PFBs, with the exception of MSIOs and ministries with constituent bodies, failed to adequately address the risks associated with specific activities in their written procedures, i.e., they do not describe in detail all control activities to a satisfactory extent (average scores are below 4).

Adequate segregation of duties is provided for in most PFBs (MSIOs – 4.75, ministries with constituent administrative bodies – 4.58, other DBBs excluding PEs – 4.13, local government bodies and services – 4.14). Predictably, there are issues with small PFBs, primarily in the IBB category, where this requirement cannot be met because they have few employees. In such cases, additional mechanisms should be implemented, most often in the form of enhanced oversight. However, the scores show that IBBs, both at central and local level, failed to adequately respond to the inherent impossibility of segregating duties, i.e., it is doubtful whether enhanced oversight will enable them to compensate for the lack of mechanisms ensuring segregation of duties (average scores 3.03 and 3.18).

Key PFBs at the central level have defined rules and procedures to ensure information security, scores range from 3.93 in IBBs to 5 in MSIOs, while the range of scores at the local level is slightly

lower (3.67 for IBBs and 4.06 for DBBs). The issue of a restrictive approach to total resources is resolved satisfactorily on the overall, which can be inferred based on the average score of 4.32.

b) The principle of *selecting and developing control activities in the sphere of IT infrastructure*. The analysis of control activities in the field of IT infrastructure reveals the need for certain groups of PFBs to invest additional efforts (the overall average score is 3.72). MSIOs and PEs have largely established control mechanisms in the field of procurement, development and maintenance of IT systems. That said, users of NHIF funds, other DBBs and ministries with constituent administrative bodies should improve this segment (3.81, 3.57 and 3.88, respectively). At the local level, the situation is even less favourable (the average score is around 3.35).

Looking at all PFBs we note that a high degree of IT systems' security is in place, which entails that appropriate procedures and rules are applied, especially in the groups at central level, with MSIOs (5), PEs (4.69), ministries with constituent administrative bodies (4.40) and users of NHIF funds (4.38) at the forefront.

c) The principle of *implementing control activities through policies and procedures*. Individual PFB reports suggest that insufficient action is being taken to eliminate the identified internal control system weaknesses (3.25). MSIOs, ministries with constituent administrative bodies, PEs at central level reported better scores in this segment (4 and above). Local government bodies, as well as other PFBs at local level, reported average scores of around 3.22, which reflects the need for improving mechanisms for eliminating identified weaknesses in the internal control system through training and/or other forms of staff education.

The situation with activities focusing on preserving and improving the functionality and overall relevance of control activities' policies and procedures is particularly unfavourable (the overall average score is 2.71). Only MSIOs, and PEs to a lesser extent, meet the requirement which entails the performance of periodic reviews of this system (4.75 and 3.97, respectively).

4) Information and communication. The process of managing an organization and achieving the set goals, and consequently the effective and efficient functioning of the internal control system, entails the availability, communication and use of relevant, accurate, complete, and timely information. The principles of this COSO framework element relate specifically to the need for the organization to a) obtain or generate and use relevant and quality information, in other words to communicate, both b) internally and c) externally, all information relevant to internal controls.

a) Based on the data obtained concerning the principle of *obtaining or generating and using relevant and high-quality information*, we can conclude that PFBs have a satisfactory information base for the functioning of the FMC system. The overall average score of 3.89 suggests that PFBs have access to and are making use of relevant and high-quality information, especially at central level, where the MSIOs, PEs and ministries with constituent administrative bodies are leading with an average score of 4.92, 4.35 and 4.29, respectively. The results are slightly weaker when it comes to setting clearly defined individual information needs. Information and communication systems enable the monitoring of the achievement of objectives and oversight, especially at central level, where all scores—with the exception of IBBs—exceed 4.00 (ranging from 4.02 for users of NHIF funds to 4.75 for MSIOs). Moreover, the high scores lead us to conclude that all employees have access to the information they need to perform their respective individual tasks, both at central and local level.

b) The principle related to *internal communication* is also highly rated (the overall average score is 4.46). Managers of most PFBs receive timely and complete information required to perform the tasks within their remit (scores over 4.40). In PFBs that have a supervisory body, the communication between the board of directors/supervisory board and management is regular. At central level, MSIOs, PEs and beneficiaries of NHIF funds have extremely high scores (5.00, 4.84 and 4.57, respectively). Other PFBs at local level (the majority of these are PUCs) reported an average score of 4.63 on this issue.

c) When it comes to the *external communication* principle, the overall average score of 4.01 leads to the conclusion that availability of information from external sources relevant to the functioning of the internal control system is at a relatively high level. A high degree of transparency is also provided in relation to external actors (overall average score 4.44). On the other hand, we need to further analyse the relatively high overall average score of 3.98 of the extent to which management has access to and considers external information on trends and change of circumstances that may significantly affect the achievement of objectives to be able to draw conclusions. This result is somewhat in contradiction with the low scores reported for mechanisms for identifying and responding to the risk of internal and external changes. The foregoing leads us to conclude that changes are merely reviewed, without having a systematic approach to change management.

5) Monitoring (oversight) and evaluation entails the introduction of a system of FMC oversight, to assess the adequacy and effectiveness of its functioning.

An organization must a) design and continuously and/or periodically perform evaluations and b) promptly analyse and communicate identified weaknesses, and subsequently monitor the implementation of corrective action.

a) The scores lead us to conclude that the *principle related to the assessment of the status and functioning of the internal control system* in PFBs is still not sufficiently present in public sector institutions (overall average score 3.33). The fact is that smaller PFBs often do not have adequate capacities to implement formal monitoring mechanisms, such as internal and external audits. This is confirmed by the average scores related to the reporting structure which ensures the independence of internal audit (overall average score of 2.63). The MSIOs, PEs and ministries reported high scores in this segment (over 3.60). The overall average score is brought down significantly by IBBs (2.45 at central 2.70 at local level). We note that the average score includes organizations that do not have their own IA, nor are they required to have one. When the issue of independence of the IA is considered in the institutions in which it was established, the result is completely different (please refer to the section on IA)

Regarding the regular reporting of the PFB management on the FMC system, the situation can be described as unsatisfactory (overall average score 3.41). The exception are MSIOs, ministries with constituent administrative bodies and PEs, which reported scores exceeding 4.00 on this issue. In addition, we should consider that the average score at central level is lower than the average score at local level (3.38 and 3.46, respectively).

Most PFBs at the central level regularly monitor the achievement of objectives and analyse the causes of any deviations from the plan. On the other hand, LSGs need to improve these segments (3.53 and 3.36, respectively).

b) As regards the principle related to the *analysis and communication of identified weaknesses and follow-up on corrective action*, the overall situation could be better (overall average score 3.41).

A cursory glance reveals that only MSIOs (4.61), and to some extent ministries with constituent administrative bodies (4.24) and PEs (4.12) are investing significantly in this internal control system aspect. That said, this area needs to be studied more thoroughly by individual issue.

If we analyse the degree of acceptance and implementation of internal auditors' recommendations (overall average score 2.83), we see that these scores were influenced by other DBBs, IBBs and users of NHIF funds at central level, which have a significantly lower coverage rate by internal audit and hence reported lower scores on this issue. Ministries with constituent administrative bodies, MSIOs and PEs, most of which have an established IA function, have contributed to raising the average score in this segment (with average scores 3.94 and higher). On the other hand, the rate of implementation of external audit recommendations is significantly higher (overall average score 3.76). A difference in the implementation of internal and external audit recommendations is present in all PFBs and is particularly marked among local government bodies and services (average score of 3.16 and 4.63) and other PFBs at local level (2.83 and 4.46).

In contrast, scores related to the monitoring of the implementation of internal/external audit recommendations and the availability of audit reports to stakeholders are high in most PFBs.

The rate of implementation of audit recommendations in the PFBs in which they were carried out is significantly higher (for IA, see the related separate CAR section). These two issues speak more about the number of institutions where internal and external audits are performed than about the rate of implementation of recommendations. The same applies to principle a) of this element in the section that addresses the reporting structure that ensures the independence of the IA.

None of the PFB categories, except for MSIOs, has established to a sufficient extent procedures to enable employees to inform the management about the identified weaknesses in the internal control system (overall average score 3.00).

2.1.5 Concluding remarks – elements of the FMC system, PFB categories, emerging trends and perspectives

We can conclude that key aspects of the control environment have been applied to a significant extent (integrity and ethical values, mission and vision as essential prerequisites, efficient organizational structure, as well as clear reporting lines). The control environment was the second best-rated element when it comes to the overall average scores for the FMC system elements (3.83). If we set aside considerations related to the supervisory body, there is room for improvement in segments of FMC reporting, internal control training, staff performance management as well as in the staff reward segment. Looking at the scores by government level, we observed that almost all PFBs at the central level have laid adequate groundwork to ensure the required structure and discipline level (average scores around 4.00). MSIOs distinguished themselves in a positive sense, with an average score of 4.67. Some weaknesses are discernible at local level, especially in the segment related to the setting up of a system of individual accountability.

There is room for improvement in the area of the control environment, specifically through the continuous improvement of the knowledge and skills of employees. Apart from improving the competences of the employees, this will also help the organization adapt much more easily to external changes. However, we note that the PFB reports indicate a high-level risk of qualified personnel attrition, hence, steps must be taken to counter this risk, primarily in the sphere of improving motivational mechanisms.

Establishing an appropriate organizational structure and reporting lines, as well as defining appropriate powers and responsibilities, are the basis of the functioning of any organization. It should be emphasized that the successful implementation of the FMC system is not possible without the commitment, support and positive example of managers who set the "tone at the top" in the organization. Moreover, integrity and ethical values must be demonstrated in building the organization's trust and reputation, both internally and externally.

We have observed significant progress in the sphere of risk management, but PFBs should continue to invest efforts in developing this segment further (overall average score 3.58). The scores suggest that local government bodies and services (DBBs) are not paying sufficient attention to the principle of identifying and analysing potential events that may adversely affect the achievement of objectives (average score 3.39). Also, most PFBs show poor results when it comes to updating the risk register. On the other hand, PFBs at the central level take this issue much more seriously, especially MSIOs (average score 4.75).

Bearing in mind that all of the organization's objectives (both strategic and operational) can be affected by different unforeseen circumstances, special attention must be devoted to risk management in the coming period. The average scores of different groups of PFBs indicate that risk management is the third weakest element of the COSO framework. Positive results are evident in the sphere of understanding the importance of defining objectives, and aligning them with the laws, as well as in aligning the objectives with revenues and expenditures, which makes an excellent basis for setting up a risk management system. In addition, reporting on risks in the organization should be strengthened in all institutions except those in the DBB category, to enable managers to make informed risk management decisions. The capacities for the assessment of fraud potential should also be strengthened.

When it comes to the segment of control activities, which are defined through a set of policies and procedures, most PFBs at the central level are achieving relatively good results. The MSIO category is in the lead (with an average score of 4.78), while PEs, ministries with constituent administrative bodies and other PFBs without PEs, show relatively good results with average scores above 4. At the local level, the DBB category has an average score of 3.80 in this segment. The relatively modest result at local level related to this element of the FMC system (3.55) is, primarily, a consequence of the self-assessment of IBs (whose average score is around 3.32).

The link between risk and control activities is strong, so lower scores in these segments may indicate the existence of oversights in work, overlapping or duplication of business processes, failure by managers to devote adequate attention to these segments in the overall management of the organization, and insufficient awareness and knowledge of these areas. We have found that organizations with a relatively large number of employees are better at applying control activities than the ones with fewer staff. A possible explanation, albeit not the only one, is that smaller entities lack the capacities required to ensure the adoption of written procedures.

There is room for progress in the areas of defining control activities, as well as in the area of project planning of IT infrastructure and perception of IT security. We can conclude that, although some control mechanisms are already embedded into the business processes, in practice, PFBs are not regularly updating and improving business processes, or reviewing control activities in the service of risk management.

Information and communication systems is the best-rated FMC segment, with an overall average score of 4.12. All PFB categories (both at central level and local level), including IBBs, reported average scores of 4 or above. MSIOs at the central level are in the lead (4.94), followed by PEs (4.54) and other PFBs excluding PEs (4.41). At the local level, the highest average score (4.20) was reported by the “other PFBs” category, which mostly consists of PUCs. Reporting and access to information is of great importance and is one of the indispensable elements for the application of the concept of managerial accountability together with the segment of clearly assigned powers and responsibilities from the control activities segment.

Monitoring and evaluation of the FMC system is the aspect in most need of improvement (the overall average score is set at 3.37) with the highest range of average scores recorded in this segment. Entities from the MSIO (4.75), and PE (4.18) categories deserve good scores, followed by ministries with constituent administrative bodies (4.02). Solid scores in this component were recorded only in the segment of implementation and communication of external audit recommendations, as well as in the segment of monitoring the achievement of objectives and analysing the causes of their non-fulfilment. There is room for improvement in the segment of monitoring activities and taking action in case of failure to implement the activities envisaged in the action plan for the FMC system (average scores 3.80 and 3.22, respectively).

The data show that the DBBs at the central level are not adequately monitoring the fulfilment of goals (2.64) and the functioning of the internal control system (2.64) in the IBBs within their remit. The situation at the local level is somewhat more favourable, but still unsatisfactory (3.57 and 2.92, respectively). The inclusion of DBBs in the process of monitoring goals and the functioning of the internal control system in IBBs within their remit would further strengthen the oversight function, as well as the level of compliance and efficiency of the activity of all organizations in the department, starting from the creation and implementation of policies to the implementation of goals.

The analysis of the results by level and category of PFB shows that PFBs at the central level in most cases reported better results relative to those at local level. MSIOs, PEs and ministries with constituent administrative bodies are generally in the lead when it comes to assessments of the state of the FMC system. Also, there was noticeable progress in the self-assessments of IBBs, which was reflected in the increase of the overall scores in certain elements. If we look at the local level, the performance of administrative bodies (DBBs) and other PFBs (PUCs) are generally mutually comparable. IBBs, both at central and local level, show that there is still room for progress across all elements.

Figure 3. Average scores of FMC elements by category of PFBs

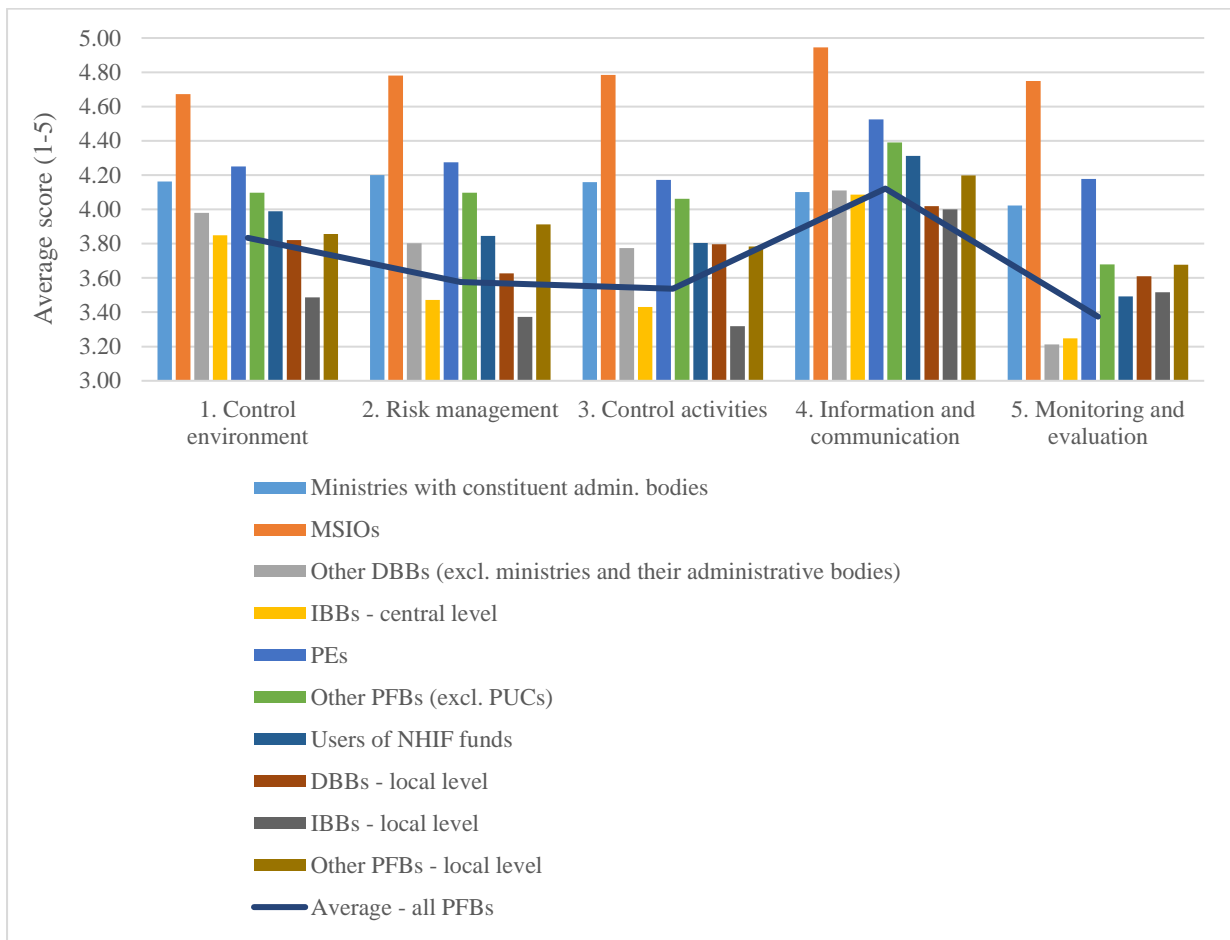
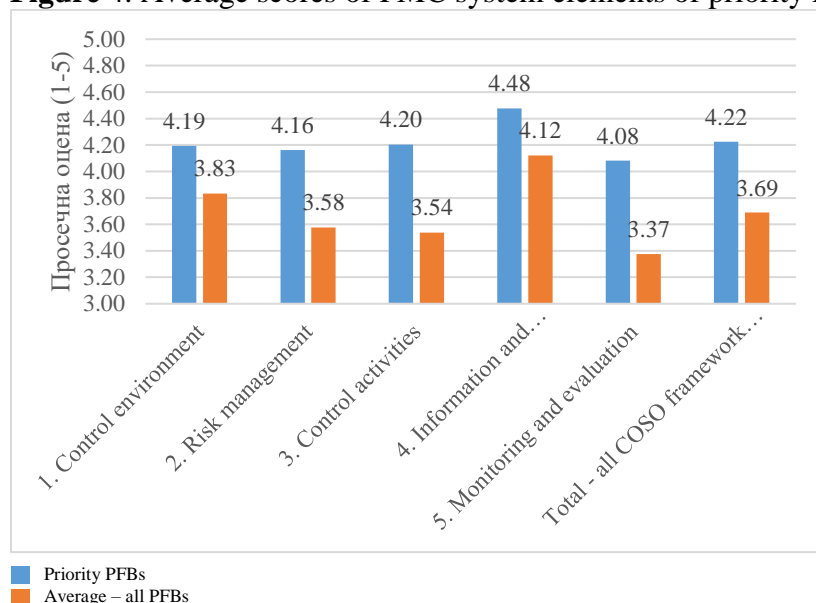


Figure 4 shows data related to priority PFBs¹⁴, whose state of the FMC system is monitored separately on the basis of PFMR Programme. We can conclude that the average scores for the COSO framework elements are relatively uniform and range from 4.08 for the monitoring (oversight) and evaluation component, to 4.48 for the information and communication component. All results are significantly above average, which is best sublimated by the average score for all FMC elements of priority PFBs (4.22), which is 14.50% higher than the overall average score of all PFBs (3.69).

¹⁴ For the purposes of this report, to present an overview of the status of FMC in PFBs, the category of “priority” PFBs is defined as the group of ministries, MSIOs, PEs, and cities.

Figure 4. Average scores of FMC system elements of priority PFBs

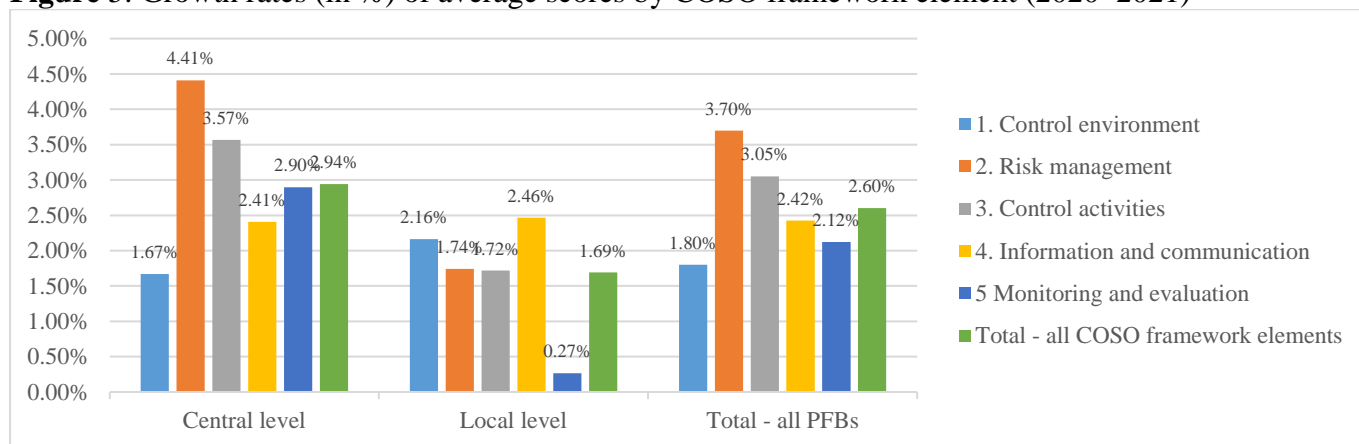


In particular, in relation to risk management, the group of priority PFBs reported an average score of 3.63 when it comes to the requirement to regularly update their risk registers.

The average score for the managerial decision-making segment in the service of risk management (risk response/reaction: risk acceptance, avoidance, mitigation or distribution/transfer) stood at 3.76. Regarding the practice of regularly reporting on risks to the management, this PFB group reported an average score of 3.73.

The Figure below presents the growth rates (in %) of average scores by COSO framework element for the 2020-2021 period.¹⁵

Figure 5. Growth rates (in %) of average scores by COSO framework element (2020–2021)



The average growth rate of the scores for all elements of the FMC system stood at 2.60% in the 2020–2021 period. The overall average score of the risk management component recorded the highest growth rate (3.70%), and the control environment COSO component the lowest growth rate (1.80%), which is understandable, given the high baseline value and stable growth in the previous period. Immediately after the risk management component, control activities recorded

¹⁵ Comparison with data from the previous reporting periods only includes the group of PFBs that regularly report.

the second highest growth rate (3.05%), which indicates that these two elements are highly correlated. The score for monitoring (oversight) recorded a 2.12% growth, while in the information and communication element the growth stood at 2.42%. The overall average score for all components of the COSO framework of the PFBs at the central level recorded a slightly higher annual growth rate (2.94%) compared to the overall average score of entities at the local level (1.69%). Among the individual categories of PFBs at the central level, the highest annual growth rate of average scores was recorded by IBBs and PEs (3.55% and 1.79%, respectively). At the local level, IBBs and “other PFBs” are making the most rapid progress (3.08% and 0.97%, respectively).

2.1.6 Statement on Internal Control

Article 20 of the FMC Rulebook prescribes that the Head of PFB shall provide a Statement on Internal Control¹⁶ as an integral part of the FMC annual report (hereinafter: the Statement). Pursuant to the FMC Rulebook, PFC are required to submit the Statement starting from 1 January 2021.

The Statement on Internal Control should contribute to raising the level of managers' awareness of their role and tasks and to strengthening the concept of managerial accountability, which was previously recognized as one of the challenges in the establishment and development of the FMC system.

In this Statement, the Head of PFB confirms that he/she has obtained reasonable assurance of the level of compliance of the FMC system with international internal control standards, that the internal control system is efficient and effective, and that the organization is managed in accordance with the principles of legality, regularity and sound financial management.

When submitting their annual reports for 2021, Heads of PFB were able to choose one of the two offered Statement options. One, that the internal control system is functioning effectively and efficiently, and that the organization is managed in accordance with the principles of legality, regularity and sound financial management. Two, that there are certain weaknesses in the internal control system that will be eliminated as soon as possible and that despite the observed weaknesses, the internal control system is functioning effectively and efficiently, and that the organization is managed in accordance with the principles of legality, regularity and sound financial management.

The analysis established that 68% of Heads of PFB signed the Statement confirming that no weaknesses were identified in the internal control system, while around 32% of Heads of PFB signed a statement confirming that, despite identified weaknesses, the internal control system is functioning.

Reporting for 2021 has been improved with the introduction of the possibility of electronic signing of documents. About 46% of PFBs submitted the Statement electronically, while about 53% of PFBs submitted the Statement by conventional mail. Part of the PFBs (0.8%) either failed to submit the statement in the prescribed manner, i.e., changes were made in the text of the statement, the statement was signed by a person other than the Head of PFB or did not submit the statement.

¹⁶ Please refer to [Annes 5 – Statement on Internal Control](#)

2.1.7 FMC from the perspective of PFBs

The CHU performs a qualitative analysis of open issues based on the PFBs' annual reports in which it highlights:

- key problems and weaknesses in the establishment and development of the FMC system;
- planned activities by PFBs;
- proposed activities for the structural improvement of internal controls;
- proposed topics for trainings in the field of FMC.

The results of the analysis provide additional support for the conclusions and insights into the perspective of PFBs and their proposals for improving the FMC system.

The analysis highlighted issues that all PFB groups have in common:

- lack of staff capacity, high turnover of staff and underdeveloped policy for attracting and retaining staff;
- lack of training of designated FMC staff;
- lack of awareness of management at all levels and staff about the purpose and importance of the internal control system;
- the need for developing methodological materials and tools adjusted to different types of beneficiaries and to the specificities of the organizations, the nature of their activity and structure;
- the need for enhancing exchange of experiences between PFBs that fall in the same categories, for creating networks of FMC system operational practitioners;
- the lack of knowledge and skills for developing and applying FMC tools – mapping business processes, developing flow charts and internal procedures, adequately defining the organization's objectives and the identification of risks related to these objectives, and developing a risk register and a risk management strategy;
- inadequately formulated business process objectives and measurability criteria;
- inadequate connections between some business activities; the need to ensure and raise the quality of the system.

*

The needs expressed by the PFB staff and managers in the field of FMC are focused on the transfer of practical knowledge on the following topics: mapping of business processes, procedures, segmentation of the organization, defining accountability, persons and deadlines in the Action Plan, the irregularity management system, risk management, and adaptation of training to the specific types of PFBs.

Most PFBs stated that in 2021 they encountered major challenges in their functioning due to the conditions caused by the pandemic. The challenges were related to management and communication, to difficulties in the implementation of different activity segments, i.e., the impossibility to achieve the expected results. In addition, the operational coordination of services was made difficult in conditions of reduced availability of staff for the implementation of daily business because of sick leave, because of the need to adjust working arrangements, limiting the number of staff to prevent contact and the spread of the virus. Due to the increase of online exchange of information and communication, PFBs stressed the need to establish and develop information systems that include key business processes, enable regular operational activities, increased efficiency, smooth operation and business continuity, while supporting control functions, as well as the need to raise technical capacities and staff digital literacy.

2.1.8 Management of irregularities

The introduction of irregularity management in public sector organizations is an important tool for Heads of PFB for monitoring the FMC system, additionally optimizing PFB operations and reducing the risk of misappropriation of public funds.

The definition of the concept of irregularities is provided in Article 2, paragraph 1, item 51e) of the Budget System Law (BSL): “An “irregularity” means any infringement of a provision of the law or contract resulting from an act or omission by the employees of a public funds beneficiary, contractors, end beneficiaries and end recipients which has, or could have as a consequence an adverse effect on the achievement of the objectives of the public funds beneficiary and/or unwarranted costs.”

In addition, Article 18 of the FMC Rulebook provides for the obligation of Heads of PFB to establish a system for detecting, recording and acting on reports of suspicion of irregularities in the organization they manage as well as a system for reporting on management of irregularities, and the manager is also required to take precautions to mitigate the risk of irregularities. Managers, employees or third parties report deviations, inconsistencies or infringement of written rules that constitute an irregularity or raise reasonable suspicion that an irregularity has occurred, regardless of the magnitude and significance thereof and regardless of whether it was committed intentionally or negligently.

A well-established irregularity management system provides information to PFB management so that the potential for fraud can be taken into account when assessing the risks to the achievement of the PFB’s objectives and allows PFBs to assess and report on weaknesses in the internal control system of persons responsible for corrective action, including senior management.

Most PFBs (94.16%) reported no confirmed suspicion of irregularities in 2021, while 5.84% of PFBs reported that they had confirmed irregularities, of which 63.10% were resolved internally, 0.60% were resolved externally, and 36.31% both internally and externally.

2.1.9 External evaluation of the FMC system: COSO in practice

Information on the state of the FMC system at PFBs presented in their annual reports, is based on self-assessment. PFBs report how they perceive the FMC system in their organization and in respect of the information they have.

To get a more realistic picture of the FMC system in practice, we must consider the external evaluation of the system, which is performed by the SAI and the Budget Inspectorate.

These two institutions, each from their own point of view, test the implementation of the FMC and contribute to a comprehensive overview of the state of the PIFC. In addition, the SAI, with its recommendations, continuously encourages the PFBs, as the audited entities, to devote themselves to the improvement of their FMC systems and the establishment of the IA function, and in this way both institutions are indirect participants in the process of improvement, i.e., the further development of the FMC system at the PFBs.

The implementation of SAI recommendations has a positive impact reflected in the improvement of financial reporting, improvement of internal controls and increased compliance with regulations, reduction of expenditures, increase of revenues and other benefits for citizens.

In the process of regularly updating the FMC system, the organization's management and the members of the FMC WG established at the PFBs, should consider the findings and measures of the SAI and the Budget Inspectorate in order to determine the causes of any deviations, make a more adequate risk assessment and introduce appropriate controls to mitigate the estimated risks .

It should be noted that internal auditors at PFBs should regularly familiarize themselves with the findings of the SAI and the measures of the Budget Inspectorate, by informing themselves about and recording the audit environment, and should monitor the implementation thereof with a view to improving operations and achieving the goals of the PFB.

The reports of the SAI and Budget Inspectorate are available on the websites of the [SAI](#) and [MFIN](#).

2.1.10 FMC system quality reviews

The establishment of the FMC system quality review function at PFBs began in 2018. As regards the selection of institutions subject to FMC quality reviews, the approach applied by the CHU in 2021 differs from the previous years, primarily because the CHU has limited capacities, hence, the application of risk analysis for selecting institutions is inadequate. A more adequate approach in this case is a sector-specific approach that will be fully aligned with the new PFMR Programme.

An FMC system quality review is intended to check compliance with the regulatory framework and confirm the impartiality of the self-assessment performed by the organization, in other words, the functioning of internal controls, as well as the level of the organization's commitment to achieving goals and results.

In line with this, two FMC system quality reviews were carried out in the reporting period, one in the Science Fund and the other one in the Institute for the Improvement of Education Quality. Both PFBs are under the purview of the Ministry of Education, Science and Technological Development.

The objective of an FMC system quality review is to evaluate the existing FMC system, carry out an evaluation and support PFBs in meeting international internal control standards in an appropriate and most expedient manner, and gain assurance that the FMC system has been established at the selected PFB and is functioning properly, i.e., in accordance with the principles of the COSO framework.

Taking into account the individual results and findings of the FMC system quality review, the conclusion is that the current stage in the process of establishing the FMC system at both institutions is at a satisfactory level. Parts of the system were identified that require additional attention and a timely response from the management in order to meet the set requirements and resolve weaknesses for the purpose of further developing and improving the FMC system. Certain weaknesses and deficiencies were observed at both PFBs in the segments of control activities, risk management, human resources management, on the basis of which, in the individual reports, specific actions were proposed for further improving the system.

In the course of the FMC system quality review the management manifested a very positive attitude towards sound financial management as well as a high level of awareness of managerial accountability. The "tone at the top" of the organization is clearly aimed at achieving goals by raising the quality of internal controls.

All the key attributes that define the prerequisites for the appropriate implementation of the control environment components are in place relating to a clear organizational structure, the reporting lines, the definition and delegation of authorities and responsibilities, bearing in mind that they need to be updated in a timely fashion, and where they are missing, documented through procedures.

HR management is particularly important, considering that both institutions face challenges related to the maintenance of a stable number of existing key employees with specialized knowledge and the personnel recruitment and retention policy. In order to further strengthen the control environment component, the organizations should determine the criteria and procedure for evaluating employee performance and introduce performance-based reward mechanisms.

Risk management is a COSO framework element that is closely related to the established and defined objectives of the organization. In order to successfully achieve these objectives, a system must be established that will enable the identification, evaluation, analysis and, finally, the management of risks as an unfavourable event and a threat to the achievement of the objectives of the organization. Following the evaluating of this component at PFBs in which the FMS system quality was reviewed, we can conclude that the organizations are aware of the importance of risk management, given that they have already defined their strategic goals in applicable public policy documents, and consequently presented the next steps to be taken in order to raise this component up to a satisfactory level. On the other hand, when documents formalizing the risk management component are adopted, in order for us to be able to say that the purpose of this component has been genuinely fulfilled, the organization must actually implement what was formally adopted on paper.

Control activities at both PFBs are established at a satisfactory level and include a number of different activities such as approval, authorization, validation, reconciliation, operational effectiveness (performance) reviews, asset security and segregation of duties. The management of both PFBs has a positive attitude towards the flow and exchange of information within the organization, as well as with external parties. An effective, timely and reliable reporting system is in place. One of the PFBs has documents prescribing that information and communication shall take place in writing and in electronic format, and important documents as well as documents related to the FMC system shall be delivered to users in electronic format and uploaded to the PFB's server. At the second PFB, an effective, timely and reliable reporting system is in place, which includes reporting levels and deadlines. The organization needs to draft internal acts that govern information security, asset management, access control, and backup.

Monitoring and oversight is the fifth component of the COSO framework and consists of a review of the organization's activities and transactions with the aim of assessing the quality of doing business (performance) over a certain period of time and determining whether controls are effective. We can conclude that the monitoring and oversight component is satisfactory, given that both PFBs have established a monitoring and reporting system, especially within the framework of risk management, by the heads of organizational units to the executive manager and then through the annual reporting on the FMC and IA to the CHU. The organizations regularly report to the Management and Supervisory Boards in accordance with the procedures established by the laws and by-laws, they also monitor the execution of the Annual Work Plan and Programme. None of the two institutions has established an internal audit unit, as a significant integral part of the monitoring and oversight component.

Reviewing the quality of the FMC system, as a relatively new function introduced by the CHU, has proven to be a good practice, especially when it comes to feedback regarding the application of the methodological materials prepared by the CHU, and also the achievement of an optimal level of establishment and functioning of internal controls and the direct participation of all of employees in the creation and implementation of independently designed internal controls. In addition to all the benefits that FMC system quality reviews have, the exchange of experience between institutions is not negligible either, it has proven to be another example of good practice that needs to be scaled up.

2.2 Internal audit

2.2.1 Internal audit coverage rate

The form of the annual report on performed audits and IA activities contains general information on the beneficiaries, on the IA units and internal auditors, information on the implementation of IA standards and methodology, proposals for the development of the IA system and an overview of performed audits and the number of recommendations disaggregated by type, as well as the number of performed consulting engagements. In 2021, the form of the annual report has remained unchanged in substance relative to the previous reporting period.

According to processed data, a total of 1,647 PFBs submitted their Annual Report on audits and IA activities for 2021.

This section of the CAR provides an analysis of the IA coverage rate in the most important PFBs' group¹⁷, i.e., in the direct budget beneficiaries at central and local level, in terms of the size of their budget and the number of employees. The audit coverage rate is primarily analysed as the share of budget covered by IA in a specific PFB group. It should be noted that in some cases, in addition to the organizational units, the official PFB List of the Treasury Administration includes the accounts of individual public sector bodies and organizations, hence, the analysis of IA coverage cannot be based solely on the number of PFBs included on this list.

The criterion applied to establish IA coverage is the requirement that the PFBs have a so-called "functional IA", which entails that the PFB has produced at least one audit report in the reporting period.

¹⁷ For the purposes of this report, in the presentation of the status of IA in PFBs, the "most important" institutions refers to the group of direct budget beneficiaries at central level, MSIOs, LSGs and PEs.

Table 3. IA coverage rate by PFB category observed in the context of Chapter 32

IA coverage	Total number of PFBs by category	Number of PFBs with functional IA	% of PFBs with functional IA of the total number of PFBs	% coverage of the budget by functional IA, by PFB category	Number of PFBs that have a d IA unit with minimum three internal auditor positions filled	% of PFBs with staffed IA unit
Ministries with constituent admin. bodies ¹⁸	25	19	76%	94%	12 of 25 mandatory	48%
Other direct budget beneficiaries at central level ¹⁹	56	18	32%		3 of 9 mandatory	33%
MSIO	4	4	100%	100%	3 of 3 mandatory	100%
AP Vojvodina	1	1	100%	100%	1 of 1 mandatory	100%
Cities ²⁰	28	18	65%	87%	7 of 28 mandatory	25%
Municipalities ²¹	117	20	17%	22%	-	-
PEs at the central level	39	21	54%	84%	8 of 14 mandatory	57%
Total:	270	101	37%		33 of 80	41%

Direct budget beneficiaries at central level²² with a functional IA account for approximately 94% of total expenditures and outlays of the budgets of direct budget beneficiaries at central level for 2021. Furthermore, as in the previous reporting period, the Ministry of Foreign Affairs and the Ministry of Environmental Protection still do not have a functional IA, and neither do the Ministry of Youth and Sport, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography and the Ministry of Rural Welfare which were established at the end of 2020.

As regards the MSIOs and their budgets, 100% of their budget is covered by functional IA, i.e., internal audit is established and active in all four PFBs in this group.

AP Vojvodina has established a functional internal audit unit that performs internal audit activities in the DBBs and IBBs of AP Vojvodina.

¹⁸ This category includes IA in 21 ministries (according to the Annual Reports received) and the special IA established in four administrations (the Treasury Administration, the Tax Administration and the Customs Administration which are part of the Ministry of Finance and the Agrarian Payments Administration in the Ministry of Agriculture, Forestry and Water Management).

¹⁹ Without administrative districts.

²⁰ Without the LSGs in AP KiM.

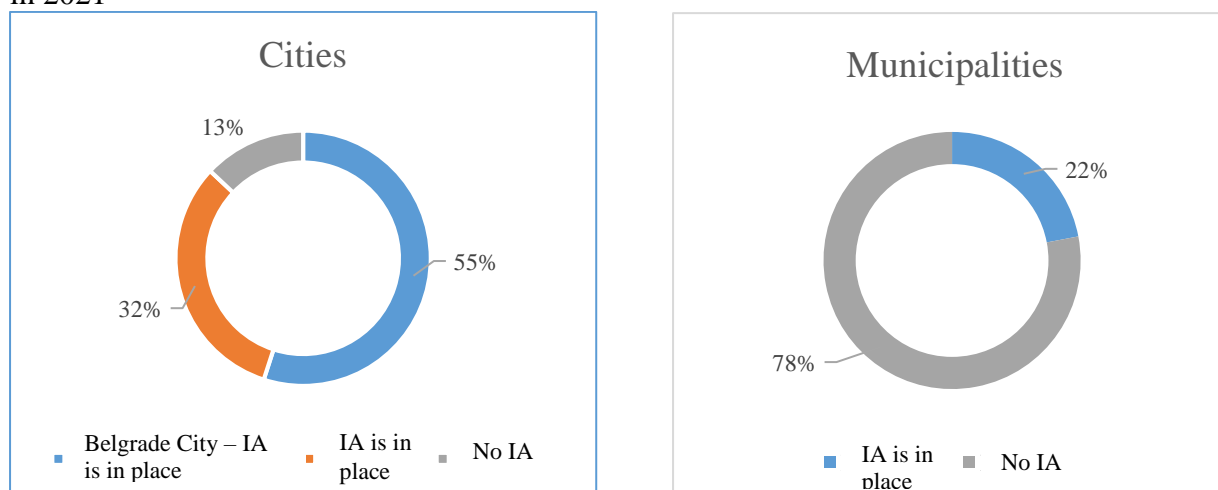
²¹ *Ibid.*

²² DBBs at central level: ministries, administrations, judiciary bodies, budget funds, directorates, offices, services and others.

When it comes to LSG group, which consists of cities and municipalities, the conclusion is that the situation in cities is significantly better than in municipalities. Eighteen of a total of 28 cities have a functional IA²³, slightly more than last year, accounting for 87% of the total expenditures of this group in 2021. The situation is not as good in the case of municipalities, as only 20 municipalities, jointly accounting for 22% of total budget expenditures of this group in 2021. The cities of Zaječar, Sombor and Smederevo did not submit their Annual Reports for 2021.

The figures below show the coverage of budget expenditures by IA in 2021.

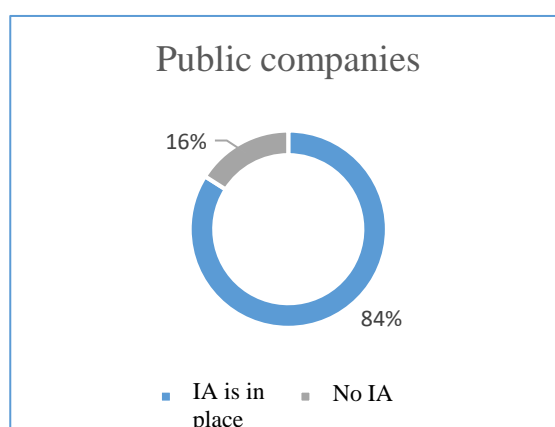
Figures 6 and 7 Coverage of budget expenditures of cities and municipalities by the IA function in 2021



Of a total of 39 PEs and capital companies at central level in Serbia covered by this analysis engaging in an activity of public interest subject to the Law on Public Enterprises, 21 has a functional IA, accounting for 54% of the total number in this group. These entities are the largest ones in the sample, both in terms of their revenues and the number of employees, accordingly, budget coverage for this group of entities stood at 84% in 2021, as presented in Figure 8.

Figure 8. Coverage of total revenues of PEs by the IA function in 2021

Also, looking at the group of the most important PFBs, Table 3 shows, where applicable, the status of IA units in PFBs that are required to have an independent internal audit unit in place with at least three auditors in accordance with the currently applicable IA Rulebook. We can conclude that, both at the central and local government level, due to insufficient staff capacity, the IA cannot adequately cover all risky business areas in the organization, in the department or in all areas under the remit of local government.



Based on an analysis of the presented data, we can conclude that:

- The MSIO category and the APV have got the required number of internal auditors;

²³Excluding LSGs in AP KiM.

- Twelve PFBs in the category of Ministries and administrations that have their IA unit and are required to staff their IA unit, which account for 48% of ministries and administrations have complied with this requirement. This year, the number of internal auditors in this category has increased by 7% relative to the previous year. Four ministries do not have a single internal auditor, among which, the three new ministries established at the end of 2020 and the Ministry of Environmental Protection, which has not had any internal auditors on their staff in the past four years;
- According to the annual reports received, 65% of cities have a functional IA, a slightly higher share than in the previous year. Pursuant to Article 6(1) of the IA Rulebook, cities are required to have a fully staffed IA unit, but only 25% of cities have complied with this requirement, which is a slight increase compared to the previous year;
- In the category of PEs at central level, 14 have over 250 employees and are required to fully staff their IA unit, however, only 8 of them have met this requirement (57% of the group that is required to have a fully staffed IA unit), still, this is a better result than last year;
- Offices and other DBBs, as well as municipalities, do not have a satisfactory coverage by functional IA.

2.2.2 The internal audit function

A total of 1,647 PFBs submitted their annual report for 2021 to the CHU. Of this number, 982 annual reports were either sent by PFBs in which the IA function was not established or were incomplete. A total of 377 annual reports were processed and analysed. According to the submitted reports, 359 PFBs established the IA function only normatively, which means that they have established IA in accordance with one of the modalities listed under Article 3 of the IA Rulebook, by including internal auditor positions in their internal staffing plan, or by stipulating an agreement, as prescribed in Article 3, item 2) and 3) of the IA Rulebook. A total of 211 PFBs have established a functional IA, which means that their IAs have produced at least one audit report in the reporting period.

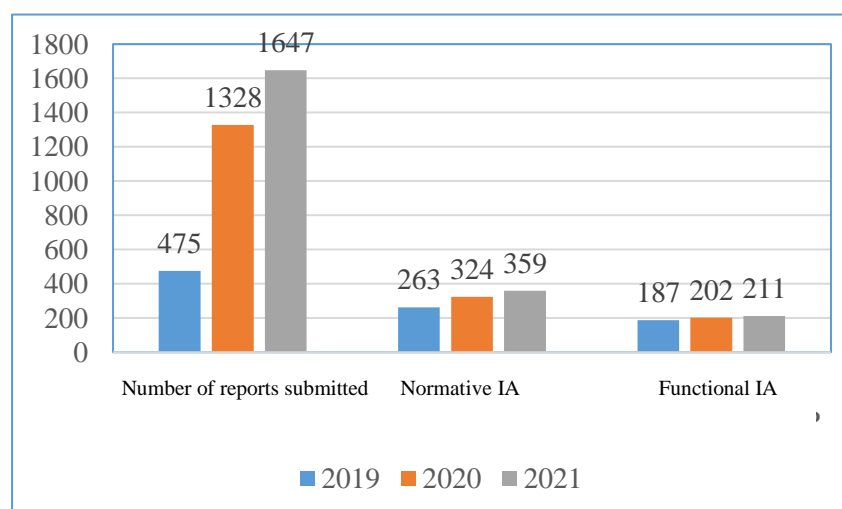


Figure 9. Number of annual reports submitted and number of PFBs which have a normative and functional IA in place, by year

Figure 9 shows the number of submitted annual reports and IA functions in place in PFBs. In 2021, the number of submitted IA reports continued to grow recording a 24% increase relative to 2020. This confirms that

significant results were achieved in raising the awareness of PFBs about the added value of establishing an IA function. An increase in the number of annual reports submitted was present in all categories of beneficiaries, most of all in the IBB category, both at central and local level, as well as among users of NHIF funds or healthcare facilities.

[Annex 3 – Overview of PFB that have established IA](#), provides a detailed overview of the number of beneficiaries by different PFB category in the group of PFBs with established IA.

Table 4. Number of PFBs in Serbia that submitted reports and established IA with systematized and filled internal auditor positions in 2021

PFBs	Reports submitted	Normative IA	Functional IA	Systematized IA positions	Filled positions
Central level	1184	196	125	476	354
Local level	463	163	86	252	184
Total in Serbia	1647	359	211	728	538

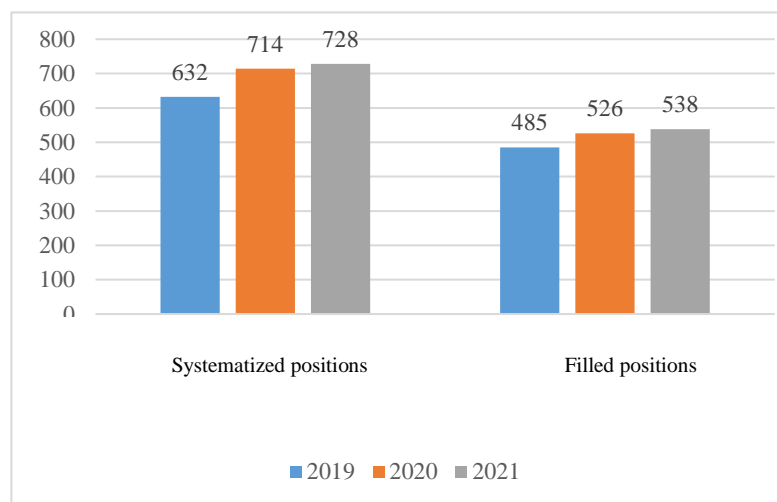


Figure 10. Number of systematized and filled IA positions in PFBs in the 2019–2021 period

Figures 9 and 10 show the total number of established IA functions along with the number of systematized and filled IA positions in PFBs in 2019, 2020 and 2021.

Based on these data, we can see that 359 PFBs have normatively established the IA function, which is an 11% increase in 2021 relative to the previous year (2020). In addition, 211 PFBs have a functional IA in place, which is a 4% increase relative to 2020.

Also, we can conclude there has been a 2% increase in the number of systematized positions and an 8% increase in the number of filled position in 2021 compared to 2020. Overall, we have witnessed a positive trend in the development of the IA function in the previous period, across all indicators. That said, we are also seeing a slow-down in the trend of growth of both systematized and filled positions, the main cause being the natural attrition of internal auditors combined with poor inflow of new staff. The decline in the number of internal auditors was recorded in the MSIOs, other direct budget beneficiaries at central level, public enterprises at central level and public utility companies at local level, combined, this resulted in an insufficient increase in the number of employed internal auditors.

Generally, natural attrition is one of the main causes of the decline in the number of internal auditors in the public sector. These facts are corroborated by the Report²⁴ of the Human Resources Management Service for 2019, which reveals that internal auditors are the oldest cohort of workers relative to all other fields of work in the public administration. As many as 13.3% will have met the statutory requirements for retirement in 2021, which is a significantly higher share than in any of the other areas of work (twice higher than the first next job group).

²⁴ Report of the Human Resources Management Service on the situation regarding the drain of personnel and proposal of measures for retention of staff and prevention of staff loss impact on the smooth operation of state administration bodies of September 2019 (p. 11).

Table 5. The total number of PFBs that normatively established IA and systematized and filled IA positions in 2019, 2020 and 2021

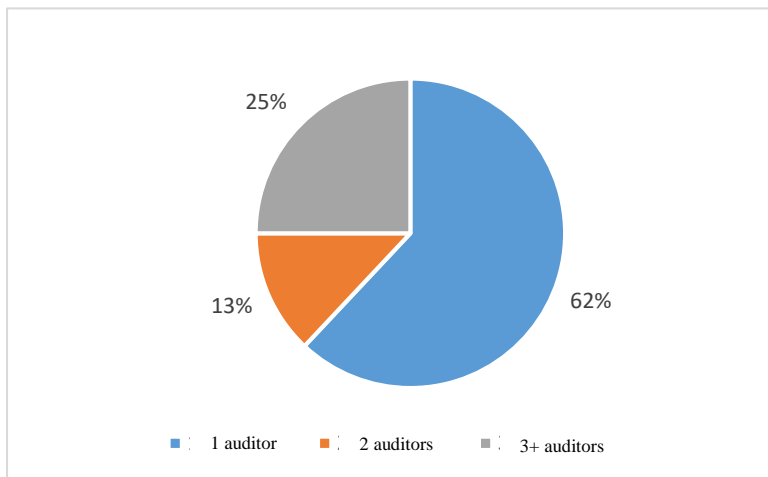
PFBs	Number of PFBs with normative IA	Number of PFBs with functional IA	Systematized IA positions	Filled IA positions
Total in RS in 2019	263	187	632	485
Total in RS in 2020	324	202	714	526
Total in RS in 2021	359	211	728	538

As shown in Tables 5 and 6, according to the received reports, an internal audit unit is in place in 31% of the 359 PFBs in which the internal audit function is normatively established, whereas in 57% one internal auditor position is envisaged in the staffing plan. In 3% of PFBs the IA function is established under an agreement with another PFB that has a functional IA unit and in 9% of PFBs have established a joint IA unit or made other arrangements (hiring individual contractors under an audit service agreement, audits performed by the holding company in the subsidiary company, or agreements not approved by the CHU). It is evident that the dominant modality of establishing the IA function is by appointing one internal auditor, which reflects the fact that there is a large share of small PFBs in which no other modality would be rational. Also, the other modalities, i.e., signing an agreement envisaging the performance of internal audit by another PFB, or establishing a joint internal audit unit, are under-represented because the existing internal audit units are not running to full capacity, i.e., they are not adequately staffed with internal auditors.

Table 6 - Number of PFBs with normatively established IAs, by IA setup in 2021

IA setup modality	Number of PFBs
IA unit	111
Agreement on the implementation of IA by another PFB	12
Joint IA unit	1
Internal auditor	203
Other (outsourcing internal auditors under a service contract; audits performed by the holding company in the subsidiary company; agreements that were not approved by the CHU, and similar)	32
Total:	359

Figure 11. Percentage of PFBs with established IA function, by number of auditors in 2021



A total of 211 PFBs have a functional IA in place. Of this number, a 63% share of PFBs has established the IA function with one internal auditor, 13% with two internal auditors, and 25% with three or more internal auditors. Compared to the previous year, we have seen a slight increase in the share of IA units with one internal auditor in the total number of IAs, which indicates the predominance of small public funds beneficiaries

in the process of introducing IA in the previous reporting period. A large share of functional IAs with one or two auditors raises doubts related to compliance with international IA standards.

The most frequently stated reasons for having only one internal auditor perform the IA work or for not filling the internal auditor positions are restrictions on new employment in the public sector, lack of highly qualified staff, low wages in the public sector, competition from the private sector, and natural staff attrition.

The biggest problem in establishing IA is the recruitment of internal auditors, for which PFBs are responsible. In this regard, the CHU will continue to analyse the root causes of the problem as well as the criteria for establishing the internal audit function and make appropriate proposals for resolving this issue.

Based on the annual reports submitted by PFBs we can see that in 6% of PFBs with a functional IA, the internal auditors on staff perform other unrelated tasks as well, as required by the Head of PFB. The primary reason for this is, as reported, the lack of staff and an increase in the workload. This is neither in line with the IA Rulebook nor with IA standards, and confirms that the managers of these PFBs have low awareness of the role and importance of IA.

Regarding IA quality assurance and improvement, in most cases, compliance with Standard 1300 – Quality Assurance and Improvement Programme cannot be guaranteed because the IA units are understaffed. In 59% of established IA units, the executive audit manager did not develop a quality assurance and improvement programme for the IA activity. Internal quality reviews, as an integral part of the programme, are performed by 56% of IA units. The most prevalent reason reported for not conducting an internal IA quality review is understaffing, i.e., the IA unit has only one internal auditor and the position of head of IA is vacant, so that periodical self-assessments cannot be done.

The IA Rulebook stipulates that the public funds beneficiary manager may establish an audit committee, as an advisory body for internal control and internal audit issues. Given that PEs have a statutory obligation to establish an audit committee, all of the established audit committees are in this category of PFBs. The audit committee, as an advisory body on IA issues, was established in 21 PEs and companies at the central level.

2.2.3 Planning and evaluation of performance

According to the IA Rulebook, IA is conducted based on the strategic plan and annual work plan approved by the Head of PFB, as well as the individual audit engagement plan approved by the head of audit.

An audit report is prepared at the end of each audit engagement, containing a summary, objectives and scope of the engagement, findings, recommendations, conclusions, which may also include comments from the manager of the audited entity.

2.2.4 Overview of performed assurance services

The head of internal audit is responsible for implementing the annual IA plan, for supervising the implementation of each individual engagement and for approving the final audit report. Any change in the annual internal audit activity plan must be approved by the Head of PFB.

Table 7 - Number of planned, follow-up, implemented and unimplemented audits in 2021, by type of PFB

PFB		Number of audits in 2021			
		Planned audits	Follow-up audits on demand	Implemented audits	Unimplemented audits ²⁵
Central level	Ministries with constituent admin. bodies	82	11	79	14
	MSIO	46	1	47	0
	Other DBBs	73	3	67	9
	IBBs	29	4	16	17
	PEs at central level	184	12	182	14
	Other PFBs (excl. PEs)	150	7	114	43
	Users of NHIF funds	100	19	83	36
	Total	664	57	588	133
Local level	LSG DBBs	181	34	83	36
	LSG IBBs	0	0	0	0
	Other PFBs (PUCs and similar) founded by the local government	148	19	126	41
	Total	329	53	275	107
Total in Serbia		993	110	863	240

According to the submitted IA activity reports, 993 assurance services and 110 follow-up on-demand audits were planned in 2021, of which 863 were implemented and 240 not. Compared to

²⁵ Audits that were either not implemented or were in progress at the date of reporting.

2020, we evidenced a notable decline in the total number of unimplemented audits by 107, i.e., from 347 to 240.

Table 8 – Overview of the number of audits, by year

Year	Total number of audits in 2019, 2020 and 2021		
	Planned audits ²⁶	Implemented audits	Unimplemented audits ²⁷
Total in 2019	1,011	781	230
Total in 2020	1,058	711	347
Total in 2021	1,103	863	240

As shown in Figure 12 and Table 9, a further increase in planned assurance services is evident, specifically, by 4% in 2021 relative to 2020. In this reporting period, an increase of about 21% in performed assurance services was observed, and consequently a decrease in unperformed assurance services by about 31% compared to the previous year, which is a significant improvement relative to 2020, in which the coronavirus pandemic largely slowed down business. The total number of performed assurance services even exceeded the number that was achieved before the outbreak of the pandemic.

Figure 12. Implementation of the annual internal audit plan

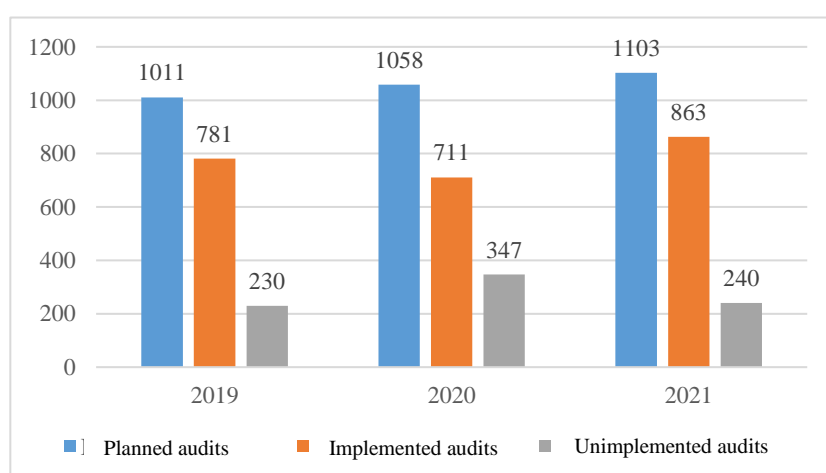


Table 9 - Relative changes in the number of audits over the three-year period

Year	Planned audits	Audits implemented	Audits not implemented
2019	4%	0%	19%
2020	5%	-9%	51%
2021	4%	21%	-31%

Relative to the total number of audits planned, a total of 22% of audits was not implemented. The most frequent reasons provided in the reports for deviations from the annual IA plan for 2021 were:

1. the current epidemiological situation caused by the pandemic and the specific conditions of work (work from home, work in shifts, change in business priorities);

²⁶ The number of planned audits includes audits that were subsequently planned on demand.

²⁷ Including ongoing audits.

2. limited staff capacity (understaffing, lack of internal auditors);
3. insufficient maturity of IA (newly established IA);
4. internal auditors are in the process of being trained.

The decline in the number of audits not implemented relative to 2020 indicates better planning and execution of audits, nevertheless, the CHU should further educate auditors in this area as well as in the IA quality review process, through its regular activities.

2.2.5 Status of internal audit recommendations

Internal auditors made a total of 6,143 recommendations for improving operations and reducing identified risks to an acceptable level. Following a decline in the number of recommendations provided the previous year, due to the pandemic, this year we have seen a recovery, reflected in the 11% increase in the number of recommendations provided in 2021 relative to the previous year, which still fell short of the pre-pandemic level.

The breakdown of recommendations by area also reveals an increase in the number of recommendations in almost all areas, with the exception of bookkeeping and financial reporting, where the growth was only recorded in the pandemic year of 2020, public procurement and wages and benefits, relative to 2020.

Table 10. Overview of the number of recommendations, by area and by year

Recommendation area ²⁸		Number of recommendations in 2019	Number of recommendations in 2020	Number of recommendations in 2021
1.	Internal rules and procedures	↑3405	↓2761	↑3169
2.	Planning	↑390	↓240	↑327
3.	Revenues and proceeds	↓170	↓113	↑136
4.	Public procurement and contracting	↑637	↓450	↓405
5.	Employees, salaries and benefits	↑529	↓377	↓363
6.	Payments and transfers	↓244	↓159	↑194
7.	Accounting and financial reporting	↑590	↑678	↓584
8.	Information systems	↑213	↓190	↑272
Recommendations in non-categorized areas		↓1071	↓572	↑693
TOTAL:		↓7249	↓5540	↑6143

If we look at the positive results in the number of recommendations provided by specific area relative to the previous year, we can conclude that there has been a recovery and that the further decline of IA activity has been prevented even despite the impact of the pandemic which was still present in 2021. In addition, we note we have yet to reach the pre-pandemic level of development of the number of recommendations provided.

²⁸ The areas and type of recommendations are provided in accordance with the official Annual Report Form on published IA audits and activities submitted by the PFBs.

Table 11. Rate of implementation of recommendations, by PFB category, in 2021

#	PFB	Number of recommendations provided	Implemented recommendations (%)	Recommendations not yet past the implementation deadline (%)	Unimplemented recommendations ²⁹ (%)
1	Ministries with constituent administrative bodies	1064	26%	22%	52%
2	MSIOs	208	91%	9%	0%
3	Other DBBs	210	42%	50%	8%
4	IBBs	111	44%	55%	1%
5	PEs at central level	1609	75%	15%	10%
6	Other PFBs (excl. PEs)	322	28%	46%	26%
7	Users of NHIF funds	468	51%	33%	16%
Total at central level		3992	54%	24%	22%
1	LSG DBBs	1330	56%	33%	11%
2	LSG IBBs	0	0%	0%	0%
3	Other PFBs (PUCs and similar) founded by local government	821	47%	35%	18%
Total at local level		2151	52%	34%	14%
Total in Serbia		6143	53%	27%	20%

Table 11 shows the recommendations provided and implemented in 2021. Out of a total of 6,143 recommendations provided in 2021, the PFBs as a whole implemented a total of 3,264 recommendations, i.e., 53% of the total number of recommendations provided. Given that this indicator measures the number of recommendations implemented in the same reporting period in which they were provided, we must also take into account the recommendations provided at the end of the reporting period, which can only be implemented in the next reporting period, for objective reasons. The percentage of recommendations that are not yet past the implementation deadline stood at 27%. According to the presented data, a total of around 20% of the recommendations were not implemented, which is the same result as last year. The main reasons reported for not implementing recommendations past the deadline are the current epidemiological situation, limited staff capacity, lack of attention, time and human resources engaged in the application of recommendations and lack of commitment by the management and staff, failure to submit reports on the implementation of recommendations in line with the signed plans for the implementation of recommendations by the audited entities and some beneficiaries, which, due to their specific activities subject to IA, were not able to review the number of implemented recommendations in the same reporting period and were only able to do so in the following year.

Looking at the individual PFB categories, we noted that MSIOs continued with a positive trend in the implementation of recommendations. Compared to the previous year, MSIOs maintained a high 91% rate of implementation of recommendations. This indicator speaks of the high awareness of the MSIOs' management of the importance of IA as well as of IA reports and recommendations for both management and organization.

²⁹ Unimplemented recommendations also include recommendations that were not accepted by the PFB management.

The weakest result was observed in the category of ministries with constituent administrative bodies, which is indicative of a lack of awareness of the importance of the need to eliminate shortcomings in the business processes as well as of a lack of understanding of IA recommendations.

2.2.6 Internal audit consulting services

International Standards on the Professional Practice of Internal Auditing specifically address audit engagements in providing consulting services. The standards require that the audit manager consider approving consulting engagements based on the contribution of these engagements to improving the organization's operations, improving risk management and adding value to the organization, and all accepted engagements must be included in the IA plan.

Table 12 – Overview of consulting services provided, by PFB in 2021

No.	PFB	Number of implemented consulting engagements
1	Ministries with constituent administrative bodies	18
2	MSIO	0
3	Other DBBs	26
4	IBBs	6
5	PEs at central level	22
6	Other PFBs (excl. PEs)	19
7	Users of NHIF funds	77
Total - central level		168
1	LSG DBBs	88
2	LSG IBBs	0
3	Other PFBs (PUCs and similar) founded by the local government	99
Total – local level		187
Total in Serbia		355

Table 13 - Overview of consulting services provided in the 2018–2020 period

Year	Number of implemented engagements
2019	242
2020	193
2021	355

Based on the reports submitted by PFBs, 355 auditor consulting engagements were carried out in 2021, which is an 84% increase relative to the previous year. The main reason for such a significant increase in the delivery of consulting services is the normalization of operations following the crisis caused by the pandemic, given that the activity of internal auditors, as well as other PFB staff, was restored to normal.

The annual report on the implementation of audits and IA activities also includes a section with the opinion of internal auditors on the level of financial management and control established in the reporting period. According to submitted reports, most of the findings concerned the control activities area, followed by risk management, and the least in the control environment component. Most of the findings concern inadequacy and non-compliance with procedures and lack of control activities.

Regarding the methodological materials prepared by the CHU in 2021, 53% of PFBs with functional IA stated they were using the Model for internal evaluation of the performance of IA units, 18% stated they were using the Tools for auditing EU IPA funds³⁰, while almost 31% of PFBs stated they are using the Tools for the implementation of IT and IT security system audits in PFBs.

2.2.7 Internal audit activity performance review

The CHU conducted a quality review of IA activity in eight public funds beneficiaries in the period from 1 January 2020 to 30 September 2021. The consolidated report on the IA activity quality review was submitted to the finance minister and published on the website of the Ministry of Finance.

The quality review was performed in the following PFBs:

- Ministry of Finance;
- Ministry of Labour, Employment, Veteran and Social Affairs;
- Ministry of Justice;
- Ministry of Health;
- Ministry of Culture and Information;
- Ministry of Defense;
- Ministry of Education, Science and Technological Development; and
- Elektromreža Srbije a.d.

The review included a check of compliance with the requirements for the establishment of IA units, audit coverage, internal auditors' competence and training, functional and organizational independence of internal audit, internal audit charter and code of ethics, knowledge of internal audit standards, strategic and annual internal audit plans, implementation of internal audit methodologies, internal audit risk management, internal quality control, needs for future training and membership in professional associations.

With the support of GIZ, an IA performance external evaluation was carried out under Public Finance Reform Agenda 2030 in the Ministry of Finance and Elektromreža Srbije a.d. according to the peer review methodology. The external IA performance evaluation was carried out by Ernst & Young consultants, in cooperation with the team for improving the external IA performance evaluation methodology which, in addition to certified public sector internal auditors employed by the CHU, also included certified public sector internal auditors from the Finance Ministry the Treasury Administration, the City of Belgrade and Elektromreža Srbije a.d.

In the PFBs in which IA quality reviews were inspected, the IA function was established by determining the required number of internal auditor positions in the rules on internal organization

³⁰ These materials are primarily intended for ministries, and 10 ministries that are IPA accredited are using them in their work.

and staff establishment, pursuant to the IA Rulebook. All of them have envisaged IA units with three or more internal auditor positions in their internal regulation, of which in six PFBs three internal auditor positions were filled, respectively, and in one PFB only one. Out of the systematized 34 internal auditor positions, 32 were filled, of which 27 internal auditors are Certified Internal Auditors in the public sector, while the remaining five are in the process of training for acquiring this title.

During the period of implementation of the IA quality review, the head of one IA unit terminated their employment contract upon meeting the requirements for retirement. This vacancy was still not filled at the time when the report was finalized. In addition to the aforementioned internal auditor, seven more internal auditors will meet the requirements for retirement in the coming two years. The PFBs must fill the vacant IA positions to maintain the continuity of this function.

Internal auditors, in the PFBs covered by the review, apply the IA work methodology and are familiar with the IIA. All established IA units have adopted the basic documents necessary for their activity: charter, code of conduct, strategic work plan and annual work plan, but in some cases these documents are neither published internally, nor forwarded to all senior managers in the PFB. Some IA units did not align the text of the charter with the model charter aligned with the changes in international IA standards of January 2017 published on the CHU website. Certain limitations were also expressed in the IA units' plans due to a change in the personnel structure because of the departure of experienced internal auditors and the admission of new ones who are undergoing training coupled with lengthy absences of employees (sick leave) due to the negative impact caused by the pandemic. The stated reasons resulted in changes in annual plans in the course of 2021. Consulting audit arrangements, which account for a large share of IA work, are not fully reflected in the plans.

In preparing the plans, individual IA units did not adequately document each individual step in this process and did not ensure the availability of the adopted plans to all senior managers in the PFB. In the process of preparing these plans, IA units are required to complete consultations with all senior managers and present these in plan. The planned auditor-time for the implementation of consulting arrangements must also be clearly stated therein. In this way, the transparency of IA work within the organization will be raised to a higher level and will contribute to increasing awareness of the need for all managers and employees to implement all activities in the internal control system.

The documenting of advisory and consulting arrangements often lacks conciseness and the supporting working documents justifying the use of auditor-time. Because of the shortcomings identified in the documentation related to the advisory services performed, inconsistencies were identified in the IA activity reports, as the auditor-time used for the performance of IA tasks is not adequately justified.

The internal IA quality control is performed under the constant supervision of the IA manager and is subject to periodical reviews. IA units with more than one internal auditor have the ability to implement this procedure, but IA units that are understaffed usually skip this procedure or perform it as a mere box-ticking exercise (the IA manager is also the auditor conducting the audit) and the procedure is not consistently formalized and documented. Most internal audit units have still not developed a Quality Assurance and Improvement Programme or conducted periodical self-assessments.

In their annual plans, IA units express the need for training, but in general terms, without specifying the areas in which training is needed. In direct communication, internal auditors reported the need for additional practical training for performance audits and IT audits. They also pointed out that they are often prevented from attending certain trainings due to the lack of funds allocated for this purpose in the organization's budgets in 2021, due to the adverse impact of the pandemic.

The following should be done to raise the quality of internal audit work:

- In line with their HR capacities, PFBs should recruit internal auditors to ensure the continuity of this function;
- Regularly update the IA charter and provide access to these documents to all managers and employees within the organization;
- In the process of preparing plans, document each individual step and make the adopted plans available to the entire PFB senior management. In the plans, specify the auditor-time required for the implementation of advisory and consulting audit engagements that account for a significant share of IA activity;
- Consistently document the performed consulting services to confirm that IA tasks were implemented and justify the use of auditor-time;
- Consistently implement internal control of IA performance.

2.2.8 Implementation of recommendations from the CAR for 2021

Of the 377 PFBs whose reports were included in the analysis, 87% stated that they were familiar with the content of the recommendations provided in the previous CAR in the field of IA, while 63% of PFBs stated that they were working on the implementation of these recommendations. The reasons for non-implementation are:

- limited budget resources that make it difficult to provide the required IA staff;
- restrictions of employment compounded by natural staff attrition;
- lack of qualified staff;
- IA has not been established or is in the process of being established;
- internal auditors are undergoing training;
- the pandemic slowed down or suspended the implementation of recommendations, especially in medical facilities.

2.3 The functioning of the internal control system in conditions of the pandemic

To prevent the spread of the pandemic, a whole set of measures regulating the work of PFBs was still in place in 2021, approved by the highest national bodies.

For the purpose of analysing with greater precision the impact of the pandemic on certain aspects of the functioning of the internal control system in 2021, the questionnaire provided PFBs with multiple answer options (i.e., the possibility to choose statements that are applicable to their organization), concerning the functioning of the FMC and IA systems during the pandemic.

A partial comparative analysis was performed to determine to what extent PFBs really adapted the functioning of the system within their respective organizations in 2021 relative to 2020. It should

be noted that the comparative analysis included only those PFBs that regularly report to the CHU on the functioning of the system.

Impact on FMC

As in 2021, the pandemic significantly affected the achievement of the objectives of PFBs. Although a relatively modest share of PFBs reported that they failed to fully reach their objectives (13.95%), differences among the various PFB groups are significant. Thus, 30.37% of users of NHIF funds, 27.78% of PEs at central level and 21.62% of PFBs at the local level could not fully meet their objectives. Also, only 5.94% of PFBs reported they did not reach their objectives within the planned deadlines, however, this percentage was significantly higher in MSIOs and PEs at central and local level and stood at 25.00%.

The fact that only 2.85% of PFBs reported a reduced level of control is encouraging. The biggest share of those that reported a reduced level of control is in the group of DBBs at local level and ministries with constituent bodies (9.47% and 6.98%, respectively). On the other hand, none of the PFBs in the MSIO category reported a reduced level of control.

An increase in the volume of work was reported by 24.08% of PFBs. At central level, this percentage is slightly higher (users of NHIF funds are particularly prominent in this group, with a 54.97% share of those that answered this question affirmatively, followed by MSIOs which reported a high 50.00% increase).

A **comparative analysis** of the functioning of the PFBs in 2020 and 2021 reveals that in 2021, the percentage of users of NHIF funds that had to adjust their work plans to be able to function during the pandemic increased by 14.43% relative to 2020. The number of PFBs from the category of ministries with administrative bodies that had to adjust their work plans due to the pandemic decreased by 7.69% compared to 2020. Relative to 2020, a slight increase was recorded in the number of PFBs reporting an increased workload in conditions of the pandemic (23.14%). Also, it should be noted that PEs at central level recorded a decline in the level of control by two-thirds and so did ministries with constituent administrative bodies (40.00%).

Impact on IA

In 63.23% of PFBs, IA adjusted the work plans to the situation. An 11.94% share of PFBs believes that the level of internal control declined. On the other hand, a higher percentage of IAs in local PFBs and users of NHIF funds reported a reduced level of control (18.75% and 16.98%, respectively). The opinion that objectives were not reached within the planned deadlines or that they were not fully met was expressed by 20.65% and 22.58% of all PFBs, respectively, which reflects a more significant impact on the achievement of objectives than noted in the section dealing with other PFB functions (please refer to the Section on the “Impact on FMC” – the paragraph related to the achievement of objectives). A 11.94% share of PFBs stated that the volume of work had increased.

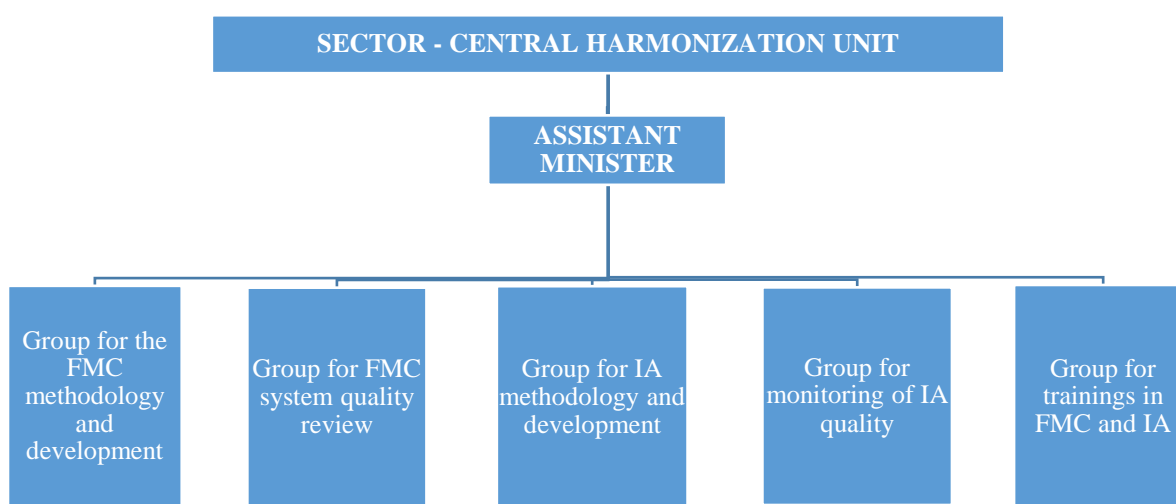
The results of the **comparative analysis** of all PFBs that regularly reported on IA for the years 2020 and 2021 indicate significant progress in the functioning of IA. In the observed period, MSIOs recorded a 100.00% growth in adapting work plans to the situation. The number of PFBs that reported an increase in IA workload grew in pandemic conditions (by 60.87%) compared to 2020, with the most significant increase recorded among users of NHIF funds by 250.00%.

*

Considering the foregoing, the impact of the pandemic on the main PIFC parameters remains significant. Nevertheless, it is important that we point out the positive shift in adjustment and in the way of doing business in most PFBs both at the central and local level in 2021 relative to 2020. The cumulative effects of the increased volume of work, as well as the constant propensity for adapting work plans to the given situation indicate that PFBs have adapted the functioning of their organizations in conditions of the pandemic.

III CHU ACTIVITIES AND PROGRESS ACHIEVED

The CHU is the third PIFC pillar in Serbia. From the institutional perspective, it is a part of the Ministry of Finance and is tasked with all affairs related to the harmonization and coordination of financial management and control and internal audit in the public sector. At the end of 2021, the CHU had 14 civil servants (including the assistant minister as a civil servant in office), and two persons are engaged under temporary contracts. The situation has significantly changed considering that two experienced staff members who also acted as mentors went into retirement. At the end of the second quarter of 2022, 8 of the positions envisaged in the staff establishment are vacant.



In connection with the post-2020 development of the strategic framework for the further improvement of PIFC in Serbia, new planning documents were adopted in accordance with the LPS, and the CHU was actively involved in their preparation as related to the PIFC scope. As regards the implementation, the CHU is either responsible for the implementation or is the lead partner in all segments related to PIFC and managerial accountability, consequently, the CHU regularly reports on the progress made in these areas, specifically in the implementation of:

1. Public Administration Reform Strategy in Serbia for the 2021–2030 period with related Action Plan for the 2021–2025 period,
2. Public Finance Management Reform Programme for the 2021–2025 period with related Action Plan,
3. Programme for Improving the Public Policy and Regulatory Reform Management for the 2021–2025 period with related Action Plan,
4. Programme for the Reform of the Local Self-Government System for the 2021–2025 period with related Action Plan.

In addition to the work related to the aforementioned planning documents, the CHU also performs its regular day-to-day work such as the continuous improvement of the regulatory-methodological framework, certification of internal auditors and training of PFB staff, monitoring of changes in international PIFC standards, principles and good practices.

Additionally, the CHU regularly monitors the implementation of recommendations from the EC Progress Report, as well as recommendations from the previous year's CAR.

According to the Annual Progress Report for 2021³¹, the Republic of Serbia is moderately prepared with regard to Chapter 32, and sound progress has been made in this reporting period. The EC's recommendations from 2020 have largely been implemented.

The rate of implementation of the recommendations from the EC Progress Report for 2021 is as follows: out of 11 recommendations, 2 have been implemented (18.18%), for 8 (72.72%) the implementation is underway, and the implementation of one has yet to begin (9.09%).

When it comes to recommendations from the CAR on PIFC for 2020, out of 13 recommendations, 7 recommendations have been partially implemented (54%). Of the recommendations implemented on a multi-year level (9), 6 are continuously implemented, and 3 are partially implemented. There are no recommendations that were not implemented. It should be noted that, out of 9 recommendations related to the FMC system, 5 are multiannual recommendations, while 4 recommendations refer to internal audit.

The status of EC recommendations along with detailed information is presented in [Annex 6. Recommendations from the EC Serbia Report 2021](#) herein.

In the context of the previous CAR recommendations related to PFBs, 67% of PFBs that submitted the IA report stated that they were familiar with the content of the recommendations from the previous CAR related to IA, while 61% of PFBs stated that they were working on their implementation. A slight decline in the number of PFBs that are familiar with the CAR recommendations from the previous CAR is consistent with the increase in the number of reports submitted.

The status of CAR recommendations, along with detailed information, is presented in [Annex 7. Recommendations from the CAR on PIFC for 2020](#) of this document.

3.1 Overview of progress made in 2021 towards the achievement of the objectives set out planning documents

In 2021, the PIFC area as a whole continued to strengthen under the framework of the *Public Finance Management Reform Programme for the 2021–2025 period with related Action Plan for said period*, and the CHU as the leading institution in the field of internal control and IA remained fully committed to strengthening the implementation of PIFC concepts at the central local level.

In parallel with the strengthening of the FMC and IA systems, in 2021 the CHU focused on improving the reporting system through the use of a web application with the help of which PFBs report to the CHU about the state of the FMC and implemented audits and IA activities in order to facilitate and speed up the process of submitting annual reports. The user interface was updated, some new questions were added, and a user guide was developed in writing and in video format.

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https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_oktobar_21.PDF

Following the successful the electronic reporting process for the year 2020, the reporting for the year 2021 was further improved with the introduction of the document electronic signature option. The CHU provided PFBs with constant support for using the application.

In 2021, the CHU continued to advance its cooperation with the NAPA. Two five-day webinars were held for 292 participants on the NAPA platform. In addition, the NAPA organized PIFC training for 260 participants through its system. The cooperation between the CHU and the NAPA also materialized through the preparation of the Training Programme.

In late 2021, activities aimed at improving the FMC and IA system at the local level planned in the PFMR Programme were implemented under the Programme for the Reform of the Local Self-Government System for the Period from 2021 to 2025, in cooperation with the RELOF2 project. With the support of the Ministry of Education, Science and Technological Development, a pilot project was launched for the establishment of the FMC system in schools, which in 2022 will result in the establishment of the FMC system in primary and secondary schools in 2 LSGs and in the publication of a Practical Guide for the Establishment of the FMC system in schools (primary and secondary), in the FMC tool with business process proposal and revised video lectures for the NAPA platform. Also, in the field of development of oversight of the activity of IBBs, maps of business processes and annual work programmes were prepared for 12 IBBs in 3 LSGs, as well as a draft of the Practical Manual for the Establishment of the FMC system at IBBs, along with a practical Excel tool.

Local self-government units³² worked to improve the IA function³, and these activities were finalized in 4 LSGs in 2021. With the support of the RELOF2 project, support was provided to internal auditors with peer-to-peer professional development through organized trainings, which contributed to their networking and further exchange of experiences. On the other hand, support was also provided at the local level by the EU Exchange 6 Programme - Enhancing credibility of planning, programme-based budgeting and control in execution of public expenditures at local level in Serbia. The project started in September 2021 and 4 webinars were held on medium-term planning for all cities and municipalities, in accordance with the NAPA programme for professional development by sector.

Concerning the empowerment of IA personnel, with the support of the UNDP project, an analysis was prepared of the number of authorized internal auditors and of the complexity of their work, including Job Competencies for Internal Auditors in the public administration and tools for evaluating competencies. The purpose behind these analyses, and the related promotional campaign, is to raise the level of awareness about the IA profession, increase the attractiveness of the profession itself, correct negative prejudices related to this profession, introduce a wider circle of qualified candidates to this profession, attract qualified staff, improve selection of candidates in the recruitment phase, and indirectly familiarize the general public with the IA function and its importance in terms of the additional value it brings to the organization.

The improvement of the regulatory-methodological framework is a part of the CHU's regular day-to-day work (additional information about these activities is provided in the continuation of this report).

³² The activities are aligned under the Programme for the Reform of the Local Self-government System for the 2021 – 2025 period with related Action Plan

For detailed information about the activities under the 2021–2025 PFMR Programme, please refer to the [Report on the Implementation of the PFMR Programme for 2021](#)³³.

On 8 April 2021, the Government adopted the PAR Strategy for the period from 2021 to 2030 and the Action Plan for the implementation of activities for the 2021–2025 period. Under Specific Objective 6 of the new PAR Strategy: Accountability and Transparency, two measures are aimed at changing the regulatory-methodological framework and supporting implementation, these include certain aspects of delegation, as well as further implementation of PFB performance at the central level. For more detailed information, please refer to – [3.2.2 Improvement of the Managerial Accountability Concept](#).

The Programme for the improvement of public policy and regulatory reform management for the period from 2021 to 2025 with accompanying Action Plan for its implementation, envisages a time frame for the introduction of Analytical Units at the national level as well as support for their introduction through the preparation of Guidelines for the establishment, job descriptions and required employee competencies. Implementation of key activities on the drafting of guidelines for the establishment of the internal units for planning documents (IUPD) based on the Regulation on internal organization and staff establishment in ministries, special organizations and government services in order to standardize the description of the scope of work, job titles, as well as job descriptions and required competencies of IUPD staff was postponed to 2022 after the adoption of a new regulation on job competencies of civil servants. (Please refer to the [Report on the implementation of the Action Plan for the implementation of the Programme for the improvement of public policy and regulatory reform management for the period from 2021 to 2025 for 2021](#)).

3.2.1 Improvement of the PIFC regulatory and methodological framework

In 2021, the IA Rulebook was amended with donor support provided under the GIZ project³⁴. The aim of the proposed changes is to enlarge internal audit units on the frontline of direct budget beneficiaries, i.e., according to the departmental principle at the central government tier as well as at the local government level, whereby internal audit would cover numerous small beneficiaries (in terms of the number of staff and the budget they have at their disposal). The enlargement of internal audit units on the frontline contributes to quality assurance in the performance of the activity and compliance with IA standards. The units of the responsible DBBs, will perform audits in the budget beneficiaries in their department or in local government according to a risk assessment, so that they do not have to audit all beneficiaries every year, which will result in resource savings. At the same time, this will also contribute to improving the position of internal auditors in the organization and facilitate mutual exchanges of experience and training.

The amendments to the Rulebook on Certification have provided to expand the circle of mentors for potential candidates and shorten the length of training for internal auditors, which will contribute to accelerating and increasing the efficiency of the certification process for public sector internal auditors.

With donor support, the CHU developed additional methodological materials in the IA area.

³³ https://www.mfin.gov.rs/upload/media/iSISql_62612e2c1ea88.pdf

³⁴ It turned out that the amendment of the two mentioned regulations is a much more complex task than expected. All preparatory analyses and conceptualizations were done in the previous period, and the initial support in amending the regulation was provided by the SECO UNDP Project, which is finished.

These materials are intended to help internal auditors perform information system and information system security audits at the PFBs. Additional expert materials, with explanations of the basic and most important concepts in the form of guidelines for performing and/or monitoring the work of experts engaged in audits of IT systems, along with the IA Manual, and documents include the following:

- Audit of software / programmes,
- Supplement the methodology with information technology audits and information security system audits with proposals of the objectives of the audit, description of the system and typical controls with a case study,
- Audit of the Information Security Act – methodological recommendations related to the development, continuous monitoring, improvement and revision of the ICT Systems Security Act according to the requirements prescribed under the laws and by-laws governing information security,
- Audit of network devices,
- Questionnaire and audit procedures for the Information Security Act.

3.2.2 Improvement of the managerial accountability concept

This is a fundamental principle in PIFC and was introduced to the system through the BSL and elaborated in detail in the FMC Rulebook. Furthermore, it is an important pillar of the public administration reform.

The CHU engages as an indispensable partner, educator and coordinator of all activities related to the improvement of managerial accountability in the administrative culture of Serbia.

As stated in Specific Objective 6 of the Action Plan for the implementation of the new PAR Strategy for the 2021–2025 period: Accountability and Transparency, two measures are aimed at changing the regulatory and methodological framework as well as at supporting implementation. The first measure envisages the setting up of system solutions, and the second one is specifically designed to improve performance management.

In this context, the Operational Group for the Improvement of Managerial Accountability was established under the auspices of the General Secretariat (GenSec), which continuously and proactively supports the implementation of relevant public administration reforms and public finance management tasks. This group is the successor of the informal group Friends of Managerial Accountability, which started more intensive work in this area at the end of 2019. The focus of the group's activities in 2021 was on the preparation of a comprehensive analysis of the situation and guidelines (Road Map) for defining structural solutions in the legal and institutional framework of the Republic of Serbia related to managerial accountability.

The EU-funded project Support to Public Administration Reform under the PAR Sector Reform Contract, a part of the complementary support to the Budget Support Programme for the PAR Sector, prepared an analytical report with recommendations for improving managerial accountability in Serbia's public administration. The analytical report includes several aspects of managerial accountability in Serbia: delegation of responsibilities and authorities, performance management and evaluation, as well as organizational culture. In 2021, the Project carried out an extensive analysis, which, among other things, consisted of a significant number of interviews with relevant representatives of various state administration institutions. The first version of the Report on the analysis was prepared in late 2021. A more detailed elaboration of the recommendations and an agreement within the Operational Group was left for 2022. It is expected

that by the end of September, a Road Map for further improving managerial accountability will be drawn up along with a proposal for concrete solutions.

3.2.3 Trainings

Due to the pandemic and the measures in force, in 2021, the CHU organized two online Basic FMC Trainings, with the support of the NAPA platform. The trainings were attended by a total of 296 participants from various public sector institutions in Serbia (two cycles - May and October 2021).

This contributed to the intensification of cooperation between the Sector – CHU and NAPA in 2021, and the training programme for NAPA managers and employees was nominated once again as a set of trainings from the PIFC domain. In line with the nominated programme, a set of trainings was held in 2021, through NAPA, specifically:

- Financial management and control – online training attended by 217 participants;
- Internal control tools and risk management – 43 participants.

As regards the one-day trainings for managers organized and implemented by the CHU at the request of PFBs, three one-day trainings were held in 2021 at:

- Bankruptcy Supervision Agency (26 participants);
- Ministry of Trade, Tourism and Telecommunications (two groups, a total of 33 participants) and
- Ministry of Education, Science and Technological Development (16 participants).

Related to expanding the knowledge of public sector employees, webinars/trainings were held with the support of SIGMA on risk management in the context of Covid-19–“Risk Management in times of COVID-19 and beyond”–for employees dealing with finance, public procurement and coordination of activities related to the development of the FMC system. SIGMA issued 183 certificates in accordance with the training held.

For the purpose of continuous professional development of certified internal auditors in the public sector, also in cooperation with SIGMA, a webinar was held on “Data Visualization in Audit Reporting” in April 2021. This webinar was intended for internal auditors from ministries, agencies and other public sector organizations as well as external auditors to master new approaches in their work and acquire new skills.

Also, in June, a workshop in the form of a webinar was held on “SIGMA Guidelines for a PIFC-Compliant Financial Inspection Function – Workshop for the Western Balkan region”, for senior management in the Finance Ministry in the enlargement countries (primarily in the areas of financial inspection, IA, central harmonization units and bodies responsible for the reform of public finance management), as well as other institutions such as the SAI, law enforcement authorities, AFKOS and other public authorities that have an oversight or inspection role.

In addition, through the Public Expenditure Management Peer Assisted Learning network (hereinafter: PEMPAL), CHU employees also attended presentations of internal control results and next steps in the context of the pandemic, IT audit trainings, and participated in the plenary session of IA practice communities (in hereinafter: IAKOP), a joint meeting of IAKOP, PEMPAL and the Ministry of Finance of the Republic of North Macedonia with the aim of exchanging experience and presenting knowledge products on the IA and internal control management in the

public sector, as well as a joint meeting of the Audit in Practice Working Group (AiPWG) with a focus on IA advisory services.

3.2.4 Certification of internal auditors

In the May exam term, 15 candidates acquired the title of certified internal auditor in the public sector, and in the November exam term 26. Due to restrictions caused by the pandemic the exam terms were postponed and held in October 2021 and April 2022, respectively.

3.2.5 Continuous professional development of certified internal auditors in the public sector

The Rulebook on Professional Development defines areas and forms of professional development, recognition criteria, reporting and records on professional training. This Rulebook prescribes that certified internal auditors in Serbia's public sector are obliged to submit a Report on Professional Development to the CHU by January 31 of each year for the previous year.

By 31 December 2021, there were, in total, 506 certified internal auditors in the public sector. The report on professional development for 2021 was submitted by a total of 268 internal auditors, i.e., 53% of certified internal auditors in the public sector.

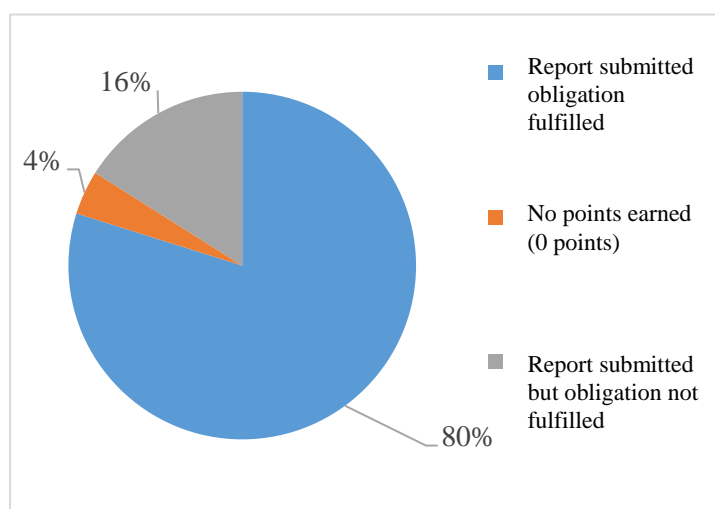


Figure 13. Certified internal auditors (CIAs) who submitted their reports on professional development

CIAs in the public sector must earn a minimum of 50 points for professional development every year, of which at least five points through organized professional training. According to submitted reports on professional training, 214, i.e., 80% (79.86) of public sector CIAs fulfilled this obligation, while a total of 43, i.e., 16% (16.04) did not. There were in total eleven certified

internal auditors, i.e., 4% (4.10), who submitted their Reports but did not manage to collect the required number of points for justified reasons (they had 0 points).

The CHU publishes a record of professional trainings for each year on its website.

It should be pointed out that an activity was envisaged in the draft PFMR Programme for 2021–2025 related to the preparation and implementation of the Programme for continuous professional development of internal auditors, so in the coming years we can expect an increase in the number of IA trainings.

3.2.6 PIFC system quality review in PFBs

Quality reviews of the FMC system and of the performance of IA units at PFBs have become a regular activity of the CHU to which significant resources are devoted. Given that they provide insights that are significant for FMC and IA, these quality reviews are presented in this report ([2.1.10 FMC system quality reviews](#) and [2.2.7 Internal audit activity](#)). Aside from the specific recommendations intended for the PFBs in which the CHU performed a quality review of IA

activity and FMC system, both activities are valuable for the CHU staff as the direct contact with practitioners provides them with an opportunity to put into proper perspective the scope of the CHU training activities as well as the objectivity of the reports coming from the PFBs.

3.2.7 International cooperation and projects

The donor community recognizes the importance of PIFC and has been providing continuous support for the improvement of this area for years. In 2021, numerous activities in the PIFC area were realized with the support of projects.

- GIZ's Public Finance Reform – Agenda 2030, which has been under implementation for several years, has continued its activity, providing significant support to the CHU. With the support of GIZ, the basic methodology for the external review of IA performance was improved with the introduction of the peer review principle and was piloted in the Ministry of Finance and EMS. Previously, a working version of the draft Rulebook on oversight of IA activities was prepared, which should provide an acceptable peer review sustainability model. Through this pilot, the first group of internal auditors was trained to perform external performance reviews, and the initial material for the training of future assessors was also prepared. This activity is directly aimed at complying with internationally accepted IA standards, which implies that each IA unit should be evaluated externally at least once every five years to demonstrate that it is compliant with these standards.
- In addition, GIZ provided support for the implementation of activities related to the optimization and better organization of IA and IA reporting, as well as for the creation of video instructions to support PFBs in the annual reporting process using the PIFC application.
- The Accountable Public Finance Management Platform project, funded by SIDA, with UNDP as the implementing partner, in its PIFC-related segment, is dedicated to improving the professional status of internal auditors. As part of this project, an analysis was prepared of the number of certified internal auditors and the complexity of their work, as well as the job competencies for internal auditors in the public administration and tools for evaluating competencies. The purpose of these analyses and the promotional campaign is to raise awareness about the IA profession. These activities aim to increase attractiveness, correct negative preconceptions, introduce a wider circle of qualified candidates to this profession, attracting qualified staff, as well as indirectly introduce the wider public to the IA function and its importance in terms of the added value it provides to the organization.
- In cooperation with The EU for the Public Administration Reform under the Sector Reform Contract Project, an analysis was carried out of the current situation in the managerial accountability system in Serbia and on the basis thereof an Analytical Report was prepared with recommendations for improving managerial accountability in the public administration of Serbia. Following consultation with representatives of GenSec, SORS, PPS, MFIN and MPALSG, a draft roadmap will be prepared to further improve managerial accountability with proposals for concrete solutions. The agreed report and roadmap will be presented at a workshop with the Operational Group for the Improvement of Managerial Accountability and representatives of the EU Delegation and SIGMA.
- In 2021, the CHU intensified activities to modernize its trainings, specifically, to innovate the traditional concept of training, paving the way for introducing a webinar and video training that will be integrated in the NAPA training programme and the platform for the training of employees and managers in the public administration and LSGs. Support for the implementation of these activities is provided by the EU-funded project Support to the Ministry of Finance for the Public Administration Reform under the Sector Reform Contract.

- The CHU continued cooperation with the RELOF 2 project, focusing on providing support to local self-government in applying the good governance principles in risk and performance management, through comprehensive internal control and adequate management of public finances. In the first phase, the project focused on providing expert assistance and support to groups of local governments (partnerships) organized around local government units that already possess certain capacities for the successful application of the principles of good governance. The donor for this project is SEKO. At the end of 2021, with the support of the Ministry of Education, Science and Technological Development, a pilot project was launched for the establishment of the FMC system in schools, which in 2022 will result in the establishment of the FMC system in primary and secondary schools in 2 LSGs, the publication of a Practical Manual for the establishment of the FMC system in schools (primary and secondary), the FMC tool with business process proposals and revised video lessons for the NAPA platform. Also, in the domain of development of oversight over the work of indirect budget beneficiaries, business process maps and annual work programs were prepared in 12 IBBs in 3 LSGs, as well as a draft of the Practical Guide for establishing the FMC system at IBBs with a practical Excel tool. Local self-governments worked to improve the IA function, and 4 LSGs finalized this in 2021. With the support of the RELOF 2 project, support was provided to internal auditors with peer-to-peer professional development through organized trainings, which contributed to their networking and further exchange of experiences.
- The EU Exchange 6 Programme – Enhancing credibility of planning, programme-based budgeting and control in execution of public expenditures at local level in Serbia, which started in September 2021, provided support for the establishment of the IA function at the local level. The EU Exchange 6 Programme is funded by the European Union under the national IPA 2019 programme and is implemented in the direct management mode. The key stakeholder institutions at the national level are the MFIN and PPI, along with MPALSG. As in the previous phases, the SCTM has the role of implementing partner and direct accountability regarding the implementation of planned programme activities. Four webinars were held under this project on the topic of medium-term planning for all towns and municipalities, in line with the NAPA programme for professional development by sector.
- SIGMA is another significant partner of the CHU with whom cooperation was continued in 2021. In addition to the support it provides, SIGMA carried out monitoring and evaluation of the Public Administration Reform, including an evaluation of the status of PIFC.

The trainings held in coordination with CHU partners are listed in detail in section [3.2.3 Trainings](#).

3.2.8 Promoting the importance of internal financial control

The activities implemented in 2021 to promote the importance of PIFC were mostly organized with the support of projects (workshops, trainings and events attended by internal auditors, management representatives and FMC coordinators). The CHU participates in the activity of all forums relevant to PIFC.

In 2021, preparatory activities were carried out with the aim of attracting staff and promoting the profession of internal auditor in the public sector as well as the activity of the CHU. The campaign was implemented at the beginning of 2022.

Also, with the support of donor projects, the CHU worked to improve visibility and familiarize the general public with the importance of FMC and IA³⁵.

The CHU cooperated with the Covenant, professional associations of internal auditors and other PIFC experts. Given that the internal target group in PFBs (managers and internal financial control professionals) is a key target group, the CHU has intensified communication activities targeting these groups.

³⁵ For detailed information on project activities, please refer to section [3.2.7. International cooperation and projects](#) and [3.1 Overview of progress made towards the achievement of objectives in planning documents](#).

IV WEAKNESSES AND RECOMMENDATIONS

Weaknesses and recommendations for the further development and improvement of the PIFC were derived on the basis of submitted and processed reports of PFBs, insights gained by CHU in the FMC and IA quality review process, and also on based on a comprehensive analysis of the situation in the PIFC area in practice.

4.1 Financial Management and Control

The high reporting rate registered in the previous year saw further growth. A significant share of the most important institutions and PEs at national level, accounting for a major part of the expenditures and outlays of the budget of the Republic of Serbia and the PE group's revenues³⁶, have reported on the status of the FMC system. Seen as a separate category, 93.48% of priority PFBs³⁷ submitted their reports.

The analysis of results by level and category of PFBs reveals that, in most cases, PFBs at the central level are reporting better results compared to the local level.

- There is stable progress in the ratings of the application of the COSO framework principles in PFBs that are regularly submitting their reports. The MSIO and PE groups, along with ministries with constituent administrative bodies are generally in the lead when it comes to assessments of the state of the FMC system. Again, the information and communication system was the best rated COSO framework element in 2021. Scores for all elements of the FMC system recorded an average growth rate of 2.60% in the 2020–2021 period. Significant progress has been made in the sphere of risk management. The overall average score of the risk management component recorded the highest growth rate (3.70%), while the COSO control environment element scored the lowest average growth rate (1.80%), which is understandable, considering the high initial value and stable growth in previous period. Immediately after the risk management component, control activities have the highest growth rate (3.05%), which indicates a high correlation between these two elements, where some of the growth can be interpreted as still having room for improvement. The scores for monitoring (oversight) and information and communication grew by 2.12% and 2.42%, respectively. The growth rate of the overall average score for all COSO framework elements at the PFBs at central level increased at a slightly higher annual rate (2.94%) compared to the overall average score of local level entities (1.69%). The annual 16.36% increase in the number of priority PFBs that have business process maps is encouraging. Growth in the segment of creating risk registers is somewhat more modest (5.45%). PFBs continued with the

³⁶ The reporting institutions manage a high percentage of the budget. The total expenditures and outlays of all DBBs at national level (ministries with administrative bodies, judicial bodies, directorates, offices, agencies, institutes, services...), which are included in the CAR for 2021, account for 98.95% of the total expenditures and outlays of Serbia's budget for 2021. The cities that submitted their FMC reports manage 96.98% of the total city budget expenditures, and the municipalities that submitted their FMC reports manage 82.79% of the total municipal budget expenditures. PEs at the central level that submitted the FMC reports manage 99.97% of the total revenues of the PE group. Other KJS at the local level (JKP) that submitted the FUK report manage 84.61% of the total revenues of the mentioned category. The AP Vojvodina institutions that submitted the FUK report manage 99.96% of the total provincial budget.

³⁷ For the purposes of the report and presentation of the FMC status, the category of "priority" PFBs is defined as the group of ministries, MSIOs, PEs and cities.

submission of the Statement on Internal Controls, which is an integral part of the FMC report. By signing the statement, the head of the PFBs confirms that he/she has gained reasonable assurance about the level of compliance of the FMC system in the organization he/she manages in relation to international standards of internal control, about the efficiency and effectiveness of the functioning of the internal control system, and that the organization is managed in accordance with the good governance principles. Part of the annual reports of the PFBs also includes a section on the management of irregularities. Overall, further progress can be expected when it comes to the organizational establishment of the FMC system in accordance with modern standards. Optimism is based, among other things, on data indicating that a significant percentage (74.58%) of all PFBs use the CHU FMC Manual. It is noteworthy that this segment registered a 13.01% increase in the 2020–2021 period. Also, the percentage of managers and employees responsible for FMC who have attended training in this area is growing (at an annual rate of 31.77%).

The following weaknesses were identified in the FMC system:

- Lack of knowledge and skills of managers and employees was identified as a key obstacle in the process of establishing and developing the FMC system³⁸.
- Apart from the most important institutions in RS (those that account for the largest share of RS's budget), which are regularly reporting to the CHU on the state of their FMC systems, all PFBs in Serbia are required by law to report to the CHU. From the group of the most important PFBs, some cities and PEs failed to submit their reports on the status of the FMC systems;
- Data shows that the DBBs at the central level are not adequately monitoring the implementation of goals (2.64) and the functioning of the internal control system (2.64) at the IBBs in their remit. The situation at the local level is somewhat more favourable, but still unsatisfactory (3.57 and 2.92). The inclusion of DBBs in the process of monitoring goals and the functioning of the internal control system at its IBBs would further strengthen the supervisory function, as well as the level of compliance and efficiency of the work of all organizations in the department, starting from the creation and implementation of policies to the achievement of set goals.
- Business process maps and risk registers are missing in some of the most important PFBs. As many as 7 ministries (33.33%) are missing maps, while 8 (38.10%) failed to compile a risk register. Nine PEs (25%) did not develop business process maps, 11 PEs (30.56%) did not compile a risk register, while 11 PEs (30.56%) failed to adopt a risk management strategy. In the case of towns, 12.00% did not produce maps, 24.00% have no risk register and 12.00% are missing a risk management strategy;
- The local level (not taking into account the effects on the average score of IBBs at the central level – primarily schools) had lower scores compared to the national level in all elements of the COSO framework³⁹;
- The weakest self-assessment results were observed at the level of IBBs, both at central and local level;
- The monitoring, supervision and evaluation of the FMC system is still the lowest rated component of the COSO framework;
- While some progress was noted compared to last year, the growth rate of scores in the segment of risk management must be maintained;
- In practice, the PFBs are not regularly updating and improving business processes and/or revising control activities that are in the function of risk management in practice;

³⁸ For detailed information, please refer to section 2.1.7 FMC from the perspective of public funds beneficiaries.

³⁹ It is due to the impact of the scores of schools that the local level as a whole was better rated by individual components than the central level as a whole.

- The Action Plan for the establishment of the FMC system was adopted in 47% of all PFBs, i.e., 42% at the central and 58% at the local level. While 100% of organizations in the MSIO group have adopted this document, in the group of ministries with constituent administrative bodies and PEs the situation can be described as unfavourable (42%). In the PE group, two thirds of the entities have an action plan (66%). When up to date, in addition to the obvious benefits of introducing FMC, this document is one of the most useful tools for improving the system.
- Looking at priority PFBs as a separate category, it is imperative that in the coming period they improve their FMC system at the organizational level, above all when it comes to the preparation of key documents. The 77.91% share of organizations from this group that have completed their business process maps is still not satisfactory. The compilation of risk registers is also an urgent activity, because only 70.93% of priority PFBs have met this criterion.

The following recommendations are intended to ensure that identified weaknesses are eliminated:

- Heads of PFB are key actors in setting up the FMC system under the COSO framework and they need to engage and allocate adequate resources, particularly in terms of staff time and coordination of the activity, and, with the help of the FMC Guidelines and other methodological guidelines prepared by the CHU (available on the MFIN/CHU website), regularly report to reach COSO standards and demonstrate they are applied in their organizations;
- The most important PFBs that are still not reporting to the CHU on the progress made in setting up the FMC system should immediately get involved in the reporting process and start working on improving the FMC system in their respective organizations and strive to observe COSO principles according to the FMC Guidelines and other methodological tools produced by the CHU. The need to fulfil the statutory requirement to report on their FMC systems to the Ministry of Finance, applies, among other, to certain PFBs from the PE group (PE Kopaonik National Park, Mokra Gora Nature Park Ltd. and PE Šarplanina National Park), as well as some cities (Smederevo, Loznica and Prokuplje);
- The most important PFBs should improve their capacities and lead by example positioning themselves as leaders and demonstrate the positive effects and value created by internal controls. Thus, first and foremost, DBBs (ministries, cities, etc.) will be in a position to engage in the development of the FMC system in PFBs under their remit and encourage its wider adoption;
- Looking at the ministries' category, they should raise the level of establishment of the FMC system in the coming period. In that respect, some ministries, with the help of the FMC Guidelines and other methodological guidelines prepared by the CHU, should develop the following basic documents:
 - Map of business processes: Ministry of Internal Affairs, Ministry of Rural Welfare, Ministry of Family Welfare and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management, and Ministry of Foreign Affairs;
 - Risk Management Strategy: Ministry of Agriculture, Forestry and Water Management, Ministry of Foreign Affairs, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Family Welfare and Demography, and Ministry of Rural Welfare, and
 - Risk register: Ministry of Justice, Ministry of Internal Affairs, Ministry of Rural Welfare, Ministry of Family and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management, and Ministry

- of Foreign Affairs;
- With the help of the FMC Manual and other methodological guidelines prepared by the CHU, the following PEs should draw up:
 - Map of business processes: PE Fruška Gora National Park, Serbian Railways a.d, PE Stara Planina, Public Water Management Company - Srbijavode, PE Mreža Most, PE Resavica Coal Mine, State Lottery of Serbia d.o.o., Metohija d.o.o. Belgrade and Golubački Grad Fortress;
 - Risk Management Strategy: Airports of Serbia d.o.o, PE Fruška Gora National Park, Serbian Railways a.d., PE Stara Planina, PE Srbijavode, PE Mreža Most, State Lotteries of Serbia d.o.o., PE Elektroprivreda Srbije, Elektro distribucija Srbije d.o.o., Golubački Grad Fortress and Srbija Voz a.d., as well as
 - Risk Register: Transportgas Srbija d.o.o, PE Fruška Gora National Park, Serbian Railways a.d., PE Stara Planina, PE Srbijavode, PE Mreža Most, State Lottery of Serbia d.o.o., Public Enterprise for Shelters, PE Elektroprivreda Srbije, Golubački Grad Fortress and Srbija Voz a.d.
- In the category of cities, the following cities should, with the help of the FMC Manual and other methodological guidelines prepared by the CHU (which can be found on the MFIN/CHU website) develop:
 - Map of business processes: Kruševac, Leskovac, and Valjevo,
 - Risk register: Valjevo, Vršac, Zaječar, Niš, Novi Pazar and Pančevo;
 - Risk management strategy: Vršac, Novi Pazar and Pančevo;
- The PFBs need to invest continuous efforts in improving risk management. To this end, the PFBs should use the guidelines and tools that were prepared and improved over the course of 2018 and 2019. In this sense, PFBs should adopt a Risk Management Strategy, and subsequently in the risk management process create a risk register, update it regularly, and establish control activities to reduce the risk to an acceptable level, especially given that this requirement is also provided for in the bylaws governing the FMC system in detail⁴⁰;
- PFBs should regularly update their action plans so as to continuously improve their FMC system. Specifically, this means that, aside from the self-assessment questionnaires they send in annually, PFBs should, among other things and on the basis of their scores, determine which segments of the FMC system should be improved in the coming period.
- All PFBs should use the FMC Manual, and the extensive methodological tools in the field of FMC and managerial accountability prepared and published by the CHU;
- The PFBs should enrol their managers and employees in the trainings organized by the CHU.

4.2 Internal audit

According to the latest data from 2021, the IA function has shown a positive trend of development in the previous period according to all indicators. In 2021, the normatively and functionally established IA function have recorded a growth of 11% and 4% percent, respectively, relative to the previous year, 2020. Most institutions at central level have established IA. In Serbia's public sector, the number of systematized positions and the number of employed internal auditors has increased by 2% in 2021 relative to 2020.

⁴⁰ Article 8 of the FMC Rulebook

Although an increasing number of PFBs has set up a functional IA, the following weaknesses were identified in this area:

- Ministries: A 7% increase was recorded in the number of employed internal auditors in this group relative to the previous year. The Ministry of Environmental Protection has not yet filled any of the internal auditor vacant positions, and the same applies to the three ministries established in 2020, specifically, the Ministry of Human and Minority Rights, the Ministry of Family Welfare and Demography and the Ministry of Rural Welfare. Thirteen of a total of 21 ministries do not meet the minimum requirement of having three employed internal auditors in their IA units, which is 62% of this PFB group. Consequently, the IA cannot cover all risky business areas in the ministry and department.
- Cities and municipalities: At the level of local self-government, in the category of cities and municipalities, we noted a 9% increase in the number of employed internal auditors compared to last year. In accordance with Article 6(1) of the IA Rulebook, cities are required to have a fully staffed IA unit, and 75% of cities does not fulfil the requirement of having a minimum of three employed internal auditors. Due to insufficient staff capacities, the IA cannot cover all risky areas in the remit of local government.
- Weaknesses shared by all PFB categories:
 - A high percentage of established IAs with two or fewer auditors raises doubt as to whether IA standards can be fully observed;
 - While an effort was made to recruit a number of new internal auditors, the inability to attract and retain qualified staff is still evident, resulting in an inadequate number of internal auditors. Due to the long-term freeze on new employment, the number of candidates applying for basic IA training is in decline, which is an indication of the dwindling potential for bringing in new internal auditors in the public sector. An additional decrease in the size of the internal audit workforce is to be expected due to natural attrition, considering the average age of internal auditor staff;
 - Insufficient support by Heads of PFB is one of the causes of identified weaknesses in the areas of filling the positions of internal auditors, implementing IA recommendations, performance of other non-IA tasks and enabling professional training of internal auditors;
 - A significant number of IA units in PFBs does not have quality assurance and improvement programmes in place, or full internal evaluation of the performance of IA, aside from regular oversight by the head of internal audit. The reason for this situation is the failure to fill the vacant positions or having just one internal auditor on staff in the IA unit or a vacant position as head of IA, which makes periodical self-assessment impossible;
 - Annual IA Audit Plans were not fulfilled, specifically, a total of 22% planned assurance services was not implemented.

The following recommendations are intended to ensure that identified weaknesses are eliminated:

- Recommendations related to the setting up of IA, the staffing of IA units and the improvement of the professional status of internal auditors:
 - In accordance with Article 82(1) of the Budget System Law, all PFBs are required to establish the IA function; comply with the prescribed systematization (staffing establishment); and hire the required number of staff to fill the internal auditor positions in accordance with the regulations, risks, complexity of operations and the amount of funds they manage. The possession of a certificate for certified internal auditor in the public sector should not be listed in the internal systematization as a requirement for employment of internal auditor. Nevertheless, internal auditors must meet the requirements for acquiring this certificate, specifically, possess at least three

years of experience in auditing, internal control, financial control or accounting and financial affairs. When auditors are assigned to their job, they will apply for training for certified internal auditors in the public sector. Job descriptions for internal auditors can be downloaded from the MFIN website: <https://www.mfin.gov.rs/o-ministarstvu/interna-revizija>;

- By way of priority:
 - the Ministry of Youth and Sport, Ministry of Environmental Protection, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Mining and Energy, Ministry of Economy, Ministry of Trade, Tourism and Telecommunications, Ministry of Construction, Transport and Infrastructure, Ministry of Public Administration and Local Self-Government and Ministry of Labour, Employment, Veteran and Social Affairs, should fill the positions of internal auditors as soon as possible by either recruiting appropriate staff or selecting them from existing human resources;
 - The Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography and Ministry of Rural Welfare should align their internal staffing plans with Article 3(3) and Article 5(2) of the IA Rulebook and establish an IA unit with minimum three internal auditors and fill the internal auditor positions as soon as possible.
- By way of priority:
 - the cities of Subotica, Kruševac, Vranje, Kikinda, Pančevo, Sremska Mitrovica, Loznica, Pirot, Jagodina, Bor, Smederevo, Leskovac, Šabac, Zaječar, Vršac, and Sombor should align their internal job systematization (staffing establishment) with Article 3(3) and Article 6(1) of the IA Rulebook and establish an IA unit with at least three internal auditors and fill these positions as soon as possible;
 - the cities of Požarevac, Loznica, Zrenjanin, Valjevo, Čačak and Kraljevo should fill the vacant internal auditor positions as soon as possible.
- The role of PFB management is crucial for the adequate establishment of the internal audit function. Therefore, managers who have not adequately established an internal audit function in their institution should not only provide to fill internal auditor positions pursuant to Article 8(4) of the IA Rulebook, but also ensure the independence of the IA function by preventing auditors from performing other tasks that may become subject to audit. Additionally, Heads of PFB must ensure adequate implementation of IA recommendations, provide unlimited access to documentation and facilitate audit performance and enable the professional development of internal auditors; For the purposes of ensuring timely oversight over the implementation of IA recommendations, the management must ensure the timely delivery of the reports on the implementation of the signed action plan for the implementation of the recommendations that were provided and accepted, within the prescribed deadlines, by the audited entities, which would have a positive impact on the effectiveness of the IA function.
 - The heads of internal audit units, which should be made fully functional, should adopt a quality assurance and improvement programme and perform an internal IA performance evaluation in accordance with the existing Model for internal quality reviews of internal audit units recommended by the CHU. This Model can be downloaded on the MFIN website: https://www.mfin.gov.rs/upload/media/36M0fR_6061d4b31000e.pdf;
- In order to fulfil the annual IA work plan, achieve efficiency in conducting audit engagements and reduce the number of engagements that are not performed, every PFB should, in addition to strengthening staff capacity, review all individual causes for failure to perform audit engagements and invest efforts to resolve these. The PFB and its IA need to ensure that the annual IA plan is realistic, adequate, and in line with the risk assessment. Deviations are possible as a result of future events or contingencies that have not been and could not have

been predicted at the time when the plan was made. All known circumstances, such as regular annual audits, the entry into force of new regulations and similar, as well as the available human resources and their expertise, should be taken into account when planning. Also, the increase in the number of conducted consulting engagements should not be achieved by downsizing the number of planned audits implemented or assurance engagements. The annual IA work plan should be periodically reviewed and, if necessary, corrected, with the obligatory consent and approval of the Head of PFB. In addition, to increase the efficiency of IA and ensure that it achieves its purpose and objectives, PFBs should invest efforts to eliminate the identified causes for non-fulfilment of the annual IA work plan.

4.3 Central Harmonization Unit

As the third pillar of the PIFC, the CHU is committed to monitoring the situation in the PIFC, assisting PFBs in building administrative capacities for the implementation of the internal control system through the training of public sector managers and employees and the development of the PIFC regulatory and methodological framework. Results and weaknesses identified in this Report confirmed that the strategic planning for the period until 2025 was well done. The implementation of activities that will contribute to the improvement of PIFC is already underway and is integrated into the applicable planning documents.

In the year 2021, the PIFC area as a whole was continuously strengthened in the framework of the *Public Finance Management Reform Programme for the period 2021-2025. with Action Plan for said period*, and the primary focus of the CHU, as the leading authority in the field of internal control and IA, was on strengthening the implementation of PIFC concepts.

The CHU improved the reporting application for PFBs, prepared video instructions, and provided user support.

Amendments to the Rulebook on IA were prepared and consultations were held with internal auditors from key institutions of Serbia. The optimization of the IA organization should lead to a more expedient coverage of the IA function of PFBs. It strives to consolidate internal audit units, which ensures performance and compliance with IA standards. The planned amendments to the Certification Rules aim to expand the circle of mentors of potential candidates and accelerate the training for internal auditors, thus contributing to making the certification process for internal auditors in the public sector more efficient and quicker. Adoption of the Rulebook has been postponed until the end of June 2022, but the delay, due to complexity, is already certain.

In addition to the activities related to the Rulebooks, the IA materials were improved in the segment related to IT audits.

In terms of empowerment of IA personnel, an analysis was prepared with the support of the UNDP project detailing the number of authorized internal auditors, the complexity of their work, the required job competencies for internal auditors in the public administration and tools for evaluating competencies. The tools are available on the CHU website since 2022. In 2021, a campaign was prepared with the aim of increasing the desirability of the internal auditor profession. The campaign itself was implemented at the beginning of 2022.

The CHU and NAPA also cooperated on the preparation of the training programme. Due to restrictions related to the pandemic, the CHU organized two five-day FMC webinar cycles through

the NAPA platform. These trainings were attended by a total of 296 participants from various public sector institutions in Serbia. On this occasion, the CHU gained valuable experience in online training, and was able to observe both the benefits and difficulties of this type of training. The NAPA additionally organized PIFC trainings for 260 participants. Although cooperation with the NAPA has yet to reach its optimal level, we can conclude that—with the integration of PIFC trainings from in the NAPA training programme and the implementation of several trainings according to the training programme prepared in cooperation with the CHU—this cooperation is beginning to produce results.

The CHU is also engaged as an indispensable partner and facilitator of all activities related to the **improvement of managerial accountability** in Serbia's administrative culture. In 2021, an extensive analysis of the situation in the managerial accountability area was produced with the support of the EU-funded project Support to PAR under the Sector Reform Contract, as envisaged in the PAR Strategy for the 2021–2030 period with related Action Plan for the implementation of activities in the 2021–2025 period. This analysis included a significant number of interviews with key stakeholders in the state administration. The first working draft of the Report was prepared by the end of the year. Based on this analysis, the Operational Group for Managerial Accountability led by the GenSec⁴¹ will prepare a Road Map with proposals for concrete solution, which will be subsequently applied. The Road Map is an important document that will elaborate in detail structural solutions, following consultations with and in agreement with key institutions. Analytical units are recognized as an important factor for improving managerial accountability. They were established in a third of the institutions that are required to have them (according to data from this Report). The Programme for the improvement of public policy and regulatory reform management for the 2021–2025 period with accompanying Action Plan for its implementation, envisages a time frame for the introduction of analytical units at the national level, as well as additional steps that will contribute to raising their quality and facilitate their proper establishment.

The importance of PIFC was recognized by donor projects that provide continuous support to this area, and excellent cooperation continued throughout 2021. In addition to the aforementioned UNDP/SIDA Project and the EU-funded project Support to Public Administration Reform under the Sector Reform Contract, in 2021, the CHU was significantly supported by GIZ, the RELOF 2 project and the EU-funded project – Support to the Ministry of Finance under the PAR Sector Reform Contract. In the same year, the CHU actively cooperated with SIGMA. In addition to the support activities provided by SIGMA, an evaluation was carried out in 2021⁴² of countries in the region, including Serbia, on issues of relevance for the public administration reform, which also include PIFC.

According to the annual EC Serbia Report for 2021, Serbia is moderately prepared in Chapter 32, with good progress made in the reporting period. The percentages of implementation of the recommendations from the EC Progress Report for 2020 and 2021 are as follows: out of 11 recommendations, 2 have been implemented (18%), for 8 (72%) implementation is underway, and the implementation of one has yet to begin (9 %).

In the context of its day-to-day work, the CHU regularly performs quality reviews of the performance of IA units (at 8 PFBs for 2021) as well as quality reviews of the FMC system at PFBs (at 2 PFBs for 2021). In addition to the specific recommendations intended for the PFBs

⁴¹ Apart from GenSec, members of the Operational Group also include the PPS, the MPALSG and the CHU.

⁴² <https://www.sigmaweb.org/publications/Monitoring-Report-2021-Serbia.pdf>

under review, both activities also benefited the CHU employees who—in direct contact with the implementing entities—thus gained a better insight in the outcome of their own educational activities, the objectivity of the reports received from the PFBs, the state of the FMC systems and the activity of IA units at PFBs.

The CHU monitors the continuous professional training of certified internal auditors and publishes related records on its website.

Three one-day workshops were held for representatives of the senior management of the Bankruptcy Supervision Agency, the Ministry of Trade, Tourism and Telecommunications and the Ministry of Education, Science and Technological Development for a total of 75 participants.

In the May exam term, 15 candidates acquired the title of certified internal auditor in the public sector, and in the November exam term 26. Due to restrictions caused by the pandemic the exam terms were postponed and held in October 2021 and April 2022, respectively.

The CHU is continuously modernizing its work. A major focus of the CHU activity throughout 2021 was the automation of annual reporting through the improvement of the application and the production of video instructions. This year, the CHU team also acted as a call centre, providing support to PFBs in using the application. Work was also done to amend two regulations in the field of IA with the intention of improving and optimizing the organizational structure of IA and the certification process. The CHU performed all of the foregoing tasks whilst also maintaining a high level of performance in the context of its regular activity (certification and practical training of internal auditors, one-day trainings for the PFB management, etc.), which, in itself, is a significant accomplishment.

Weaknesses and Recommendations:

The CHU’s main weakness is primarily related to the departure and consequent shortage of experienced personnel. At the time of writing of this report, the CHU has three experienced employees fewer than in late 2021, in total 11. On the one hand, this has a motivational effect on the CHU, primarily in terms of seeking solutions to increase the efficiency and reach of CHU activities, on the other hand, it slows down and limits the CHU’s capacity to provide support. The long-standing trend is that experienced employees opt to leave the CHU to work in PEs for a significantly higher salary, and this is aggravated by the incidental and natural attrition, as well as by difficulties in attracting qualified personnel for such a specialized field as PIFC. The CHU’s administrative capacities are explicitly recognized in Chapter 32 Negotiating Position as a necessary requirement for closing this chapter.

CONCLUSION

Based on the overall findings of our analysis, we can conclude that the PIFC has continued to progress steadily throughout 2021, even when taking into account the impact of the pandemic. As the analysis showed, most PFBs adapted their functioning to the pandemic work modalities.

The CHU reporting application is fully functional and additionally improved with the introduction of the electronic document signing option and video instructions for its use⁴³. Electronic reporting is increasingly successful, which is confirmed by the further growth of the reporting rate by PFBs which had the continuous support of the CHU in using the application.

As in the previous CAR, the CHU provided recommendations for improving the FMC and IA to specific institutions from the group of priority PFBs, primarily to ministries, cities and PEs. The PFBs mentioned in this CAR should provide to remedy identified weaknesses.

The most important institutions and PEs at national level are largely reporting on their FMC system. The total expenditures and outlays of all direct budget users that are included in this CAR account for 98.95% of the total expenditures and outlays of Serbia's budget for 2021. The PEs at central level that submitted their FMC reports account for 99.97% of the total revenues of the PE group. The authorities and services of the province and local self-government units continue to largely fulfil their statutory obligation related to the submission of reports, at least when it comes to the share of the total budget covered. The APV institutions that submitted the FMC report manage 99.96% of the total provincial budget. The cities that submitted their FMC reports manage 96.98% of the total budget expenditures of cities, and the municipalities that submitted the FMC report manage 82.79% of the total budget expenditures of municipalities.

As in the previous reporting cycle, Heads of PFB were required to submit a signed Statement on Internal Control which is an integral part of the Report on the FMC system. The novelty is that Heads of PFB choose one of the two offered Statement options, depending on whether or not weaknesses were observed in the internal control system. 68% of Heads of PFB signed a statement confirming that no weaknesses were identified, while 32% of them signed a statement confirming that some weaknesses were detected in the internal control system, and that they will be eliminated as soon as possible.

The PFBs continued reporting on the management of irregularities. The vast majority of PFBs (94.16%) had no confirmed suspicions of irregularities in 2021. Confirmed irregularities were mostly resolved internally (63.11%).

If we look at the priority PFBs⁴⁴ as a separate category, it is imperative that they improve their FMC system at organizational level in the coming period, primarily as regards the drafting of key documents. Organizations from this group that have business process maps in place account for a 77.91% share, but this is still not sufficient. The compilation of risk registers also requires urgent action, as almost a third of priority PFBs (29.07%) are yet to meet this criterion. On the other hand, the annual 16.36% growth rate in the number of priority PFBs with business process maps in place, is encouraging. Growth in the segment of compiling risk registers is somewhat more modest

⁴³ The video instructions were produced with the support of the GIZ Project

⁴⁴ For the purposes of this report and the presentation of the status of FMC, the category of "priority" PFBs is defined as the group of ministries, MSIOs, PEs and cities.

(5.45%). Priority PFBs should strive to improve their capacities and demonstrate the positive effects of the internal control system, in other words, strive to be leaders in the implementation of this concept. In the case of DBBs (ministries, cities, etc.), the above is a necessary prerequisite for adequate engagement in the development of the FMC system in the PFBs that are within their remit.

We can expect further progress when it comes to the organizational establishment of the FMC system in accordance with modern standards. Our optimism is evidence-based, as data indicate that a significant percentage (74.58%) of all PFBs are using the CHU's FMC Manual. It should be noted that a 13.01% growth was recorded in this segment in the 2020–2021 period. Furthermore, the percentage of FMC managers and staff who attended trainings in this field is also recording an increase (at an annual rate of 31.77%). The aforementioned data gain importance if we consider that **the lack of knowledge and skills of managers and employees has been identified as a key obstacle in the process of establishing and developing the FMC system.**

As before, the state of the FMC system, was reviewed from the perspective of the COSO internal control framework. Key aspects of the control environment have been implemented to a large extent (integrity and ethical values, mission and vision as essential prerequisites, efficient organizational structure, as well as clear reporting lines). In the field of risk management, significant progress has been made, but additional efforts should be invested in the further development of this segment. There is room for improvement in the areas of defining control activities, as well as in the area of IT infrastructure project planning. We can conclude that some control mechanisms are already incorporated into business processes, however, in practice, the PFBs are not regularly updating and improving business processes or revising control activities that are in the service of risk management. Information and communication systems are the best-rated FMC segment, with relatively high scores in all PFB categories. On the other hand, monitoring and evaluation of the FMC system is the aspect in most need of improvement, considering that the highest range of average values were registered precisely in this segment.

The analysis of the results by tier of government (Serbia as a whole, central and local level) and by PFB category showed that PFBs at the central level in most cases reported better results compared to the local level. MSIOs, PEs and ministries with administrative bodies are generally in the lead when it comes to assessments of the state of the FMC system. Also, there was a noticeable improvement in the self-assessments of indirect budget beneficiaries, which was reflected in the increase of overall scores in certain elements. Looking at the local level, the performance of administrative bodies (DBBs) and other PFBs (PUCs) are generally mutually comparable. IBBs, both at central and local level, show that there is still room for progress in all elements.

The largest share of the most important PFBs are submitting their reports on conducted audits and IA activities, and this year's results also show that a functional IA has been established in entities that dispose of more than 83% of the budget allocated to direct budget beneficiaries at the central level of government, mandatory social insurance organizations, the Autonomous Province of Vojvodina, cities, as well as public enterprises at the central level.

According to the latest data from 2021, the IA function has recorded a positive growth trend in the previous period according to almost all indicators. In 2021, the normatively and functionally established IAs have recorded and 11% and 4% growth, respectively, relative to the previous year (2020). Most institutions at the central level have IA in place. The number of systematized jobs

and the number of internal auditors recruited in RS's public sector increased by 2% in 2021 compared to 2020.

However, a slowdown in the growth of both total systematized and filled jobs can be observed, where the main cause is the natural attrition of internal auditors, combined with the weak influx of new staff. The number of internal auditors declined in the category of MSIOs, other direct budget beneficiaries at central level, in public enterprises at central level and public utility companies at local level, which all together were a driving factor in the decline of the expected growth in the number of employed internal auditors.

The general conclusion regarding the establishment of IAs in the public sector is still that, in the context of available capacities, the number of established IAs is satisfactory, but still insufficient. **It should be noted that the lack of IA personnel is a key issue. The main causes lie on the one hand, in the lack of awareness of managers of the importance and benefits the IA function can bring, and on the other hand, in the limited possibilities of PFBs to hire adequate IA staff.**

The CHU is the third PIFC pillar in Serbia. The results and weaknesses identified in this report confirmed that the strategic planning for the period up to 2025 was well done. The implementation of activities that will contribute to the improvement of the PIFC is already underway and is integrated into the valid planning documents as well as in the regular activities of the CHU.

In 2021, with project-based support, numerous activities were implemented in the PIFC field, and the primary focus was still on strengthening PIFC concepts at PFBs. Also, the CHU is engaged in all activities related to the improvement of managerial accountability in the administrative culture of Serbia, as an indispensable partner and facilitator.

Due to restrictions caused by the pandemic, the exams for obtaining the Certified Internal Auditor title had to be delayed and were eventually held in October 2021 and April 2022. In these two terms, 41 candidates acquired the title of "Certified Internal Auditor".

The CHU performed all of the foregoing tasks whilst still managing to maintain a high level of performance in its traditional role (certification and practical training of internal auditors, one-day trainings for the management structure of the PFBs, etc.), which is, in itself a great achievement. The CHU's biggest weakness is related to the outflow and consequent shortage of experienced personnel.

ANNEXES

Annex 1. Legal framework and international standards

REPORTING REQUIREMENTS

Article 83 of the BSL stipulates that the CHU in the Ministry of Finance shall be tasked with consolidating the individual annual reports of PFBs on the state of FMC and IA, and that the finance minister shall submit the Consolidated Annual Report to the Government.

The procedure for the preparation of the Consolidated Annual Report is prescribed by the Budget System Law and its implementing bylaws.

Pursuant to Article 81 of the BSL, the Head of PFB is required to report to the Minister of Finance on the adequacy and functioning of the FMC system by March 31st of the current year, while Article 19 of the FMC Rulebook (RS Official Gazette No. 89/19), specifies that the reporting entities are required to report by responding to the questionnaire in the Forms prepared by the CHU.

With regard to the IA, Article 82 of the BSL prescribes that the Head of PFB is obliged to report to the Minister of Finance on the functioning of the IA system in the required manner by March 31st of the current year for the previous year. In addition, Article 32 of the IA Rulebook (RS Official Gazette No. 99/11 and 106/13) clarifies that the head of internal audit prepares an annual report on the internal audit activity based on a questionnaire prepared by the CHU and published on the website of the Ministry of Finance, which is to be submitted to the Head of PFB by March 15th of the current year for the previous year, while the Head of PFB, in turn, submits the report to the CHU, no later than March 31st of the current year for the previous year.

PIFC PLANNING DOCUMENTS

Former strategic framework:

- Strategy for the Development of Public Internal Financial Control in the Republic of Serbia for the 2017–2020 period (RS Official Gazette No. 51/2017);
- Action Plan for the 2019–2020 period for the implementation of Strategy for the Development of Public Internal Financial Control in the Republic of Serbia for the 2017–2020 period (RS Official Gazette No. 26/2019).

New strategic framework:

- Public Administration Reform Strategy of the Republic of Serbia for the period from 2021 to 2030 (RS Official Gazette No. 42/2021);
- Public Finance Management Reform Programme for the 2021–2025 period with Action Plan (RS Official Gazette No. 70/2021);
- Programme for the Reform of the Local Self-Government System in the Republic of Serbia for the 2021–2025 period with Action Plan (RS Official Gazette 73/2021);
- Programme for Enhancing Public Policy Management and Regulatory Reform with Action Plan for the period from 2021 to 2025 (RS Official Gazette No 13/2021).

FINANCIAL MANAGEMENT AND CONTROL

National legislation

In addition to:

- Budget System Law (RS Official Gazette No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corr., 108/13, 142/14, 68/15- as amended, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20 and 118/2021) and
- Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector (RS Official Gazette No. 89/19)

other regulations relevant to the establishment of the FMC system are as follows:

- Law on Civil Servants (RS Official Gazette No. 79/05, 81/05- correction, 83/05-correction, 64/07, 67/07-correction, 116/08, 104/09, 99/14, 94/17, 95/18 and 157/20);
- Labour Law (RS Official Gazette No. 24/05, 61/05, 54/09, 32/13, 75/14 and 13/17- Constitutional Court (CC) Decision, 113/17 and 95/18 - authentic interpretation);
- Law on Public Procurement (RS Official Gazette No. 91/19);
- Law on Salaries of Civil Servants and State Employees (RS Official Gazette No. 62/06, 63/06-correction, 115/06-correction, 101/07, 99/10, 108/13, 99/14, 95/18 and 14/2022);
- Law on Salaries in State Bodies and Public Services (RS Official Gazette No. 34/01, 62/06-other law, 63/06-amended other law, 116/08- as amended, 92 / 11, 99/11-as amended, 10/13, 55/13, 99/14 and 21/16- as amended and 113/17 - as amended);
- Law on Public Enterprises (RS Official Gazette No. 15/16 and 88/19);
- Regulation on Reimbursement of Expenses and Severance Pay for Civil Servants and Employees (RS Official Gazette No. 98/07-consolidated text, 84/14, 84/15 and 74/2021);
- Regulation on Budget Accounting (RS Official Gazette No. 125/03, and 12/06 and 27/20);
- Rulebook on common bases, criteria, and tasks for the activity of financial departments of direct budget beneficiaries (RS Official Gazette No. 123/03);
- Rulebook on the standard classification framework and Chart of Accounts for the budget system (RS Official Gazette No. 16/16, 49/16, 107/16, 46/17, 114/17, 20/18, 36/18, 93/18, 104/18, 14/19, 33/19, 68/19, 84/19, 151/20, 19/21, 66/21 and 130/21);
- Rulebook regulating the preparation, compilation, and submission of financial statements of budget beneficiaries, beneficiaries of funds of mandatory social insurance organizations and budget-based funds (RS Official Gazette No. 18/15, 104/18, 151/20, 8/21, 41/21, 130/21 and 17/22);
- Rulebook regulating the use of funds from sub-accounts of the consolidated account of the Treasury of the Republic and/or other accounts, the investment of funds and the reporting on the use and/or investment of funds (RS Official Gazette No. 101/18).

International principles and standards

The existing legal framework in the Republic of Serbia ensures compliances with most international internal control standards. The FMC Rulebook stipulates that the elements of the FMC system shall be determined in accordance with international internal control standards and aligned with the Guidelines for Internal Control Standards for the Public Sector issued by the International Organization of Supreme Audit Institutions – INTOSAI, and the COSO Framework.

INTERNAL AUDIT

Concept and definition

The Budget System Law (BSL) and the IA Rulebook define internal auditing (IA) as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. IA helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Based on an objective assessment of evidence, the IA provides assurance on the adequacy and functioning of existing risk management, control and governance processes in the organization, in other words, it shows whether these processes are functioning in the manner envisaged by the management and whether they are facilitating the achievement of the organization's objectives.

Consulting services provided by the IA typically consist of advice, guidance, trainings, assistance or other services designed to add value and improve the governance, risk management and control processes in the organization, without the internal auditors assuming managerial accountability.

According to the PIFC concept developed by the European Commission, internal audit (IA) is a function performed by an authorized, organizationally, and functionally independent IA unit or an internal auditor within the organization. Organizational independence implies that internal audit is independent of the activity it audits, that it is not part of any business process, or organizational part, and that it directly reports on its work to the head of the organization. Functional independence implies that internal audit makes independent decisions, based on risk assessment, on the internal audit area, methodology, and reporting.

The IA performs independent, professional, and systematic assessments of management and control systems, which implies the review of all functions and business processes in an organization.

Legal basis and international standards

The legal framework that regulates internal audit includes the following:

- Budget System Law (RS Official Gazette No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-correction, 108/13, 142/14, 68/15 - as amended, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20 and 118/2021)
- Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector (RS Official Gazette No. 99/11 and 106/13);
- Rulebook on the conditions and procedure of taking the exam for certified internal auditors in the public sector (RS Official Gazette No. 9/2014);
- Rulebook on professional development of certified internal auditors in the public sector (RS Official Gazette No. 15/2019);
- The IIA's International Standards for the Professional Practice of Internal Auditing;

Article 82 of the Budget System Law prescribes that a public fund beneficiary is obliged to introduce the internal audit function, as an organizationally independent function directly accountable to the head of the public funds beneficiary for its work.

The manner of introducing, maintaining, and developing the IA system is regulated in more detail in the following by-laws:

- the IA Rulebook prescribes the manner in which an IA unit is organized and set up within the public fund beneficiary, the field of work i.e., the tasks to be accomplished, standards and methodology of internal audit as a functionally independent organizational unit, rights, duties and responsibilities of IA managers and internal auditors, conditions for performing the work of the IA manager and internal auditors, as well as planning, implementation and reporting on internal audit;
- the Certification Rulebook lays down the requirements for taking the exam, the manner and procedure for taking the exam and the records on candidates who have passed the internal auditor exam;
- the Professional Development Rulebook lays down the fields and forms of professional training for certified internal auditors in the public sector, and the criteria for the recognition of professional training.

Status and organization

The Budget System Law, and the IA Rulebook as well as PIFC strategic document prescribe that the Republic of Serbia shall have a decentralized internal audit system in place.

The decentralized internal audit system requires all public fund beneficiaries to have the internal audit function in place. The IA Rulebook specifies the criteria for establishing the internal audit function, in such a manner that all ministries, autonomous provinces, towns and other public funds beneficiaries with more than 250 employees are required to have a separate, functionally independent internal audit organizational unit in place. If the IA is set up as a separate internal audit unit, it must have at least three internal auditors, of which one is the head of the internal audit unit.

Other public fund beneficiaries may establish internal audit as follows:

- by establishing an independent internal audit unit;
- by establishing a joint internal audit unit for internal audit of two or more public funds beneficiaries;
- by concluding an agreement with other public funds beneficiaries on performing internal audit services.

Exceptionally, where there are no conditions for organizing an internal audit unit, the tasks of internal audit unit may be discharged by an internal auditor employed with the public funds beneficiary.

Annex 2. Overview of average scores by COSO framework question, principle, and component, by PFB category

Table 1. Overview of average scores by question and COSO framework elements for different PFB categories

ESTABLISHMENT OF THE FINANCIAL MANAGEMENT AND CONTROL SYSTEM (in %)

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
3.1. Have you appointed an FMC manager?	69.77	100.00	63.89	62.81	80.56	79.31	59.16	63.72	77.51	59.96	84.79	70.76	65.79
3.2. Have you established a working group managed by an FMC manager, tasked with introducing and developing the financial management and control system?	72.09	100.00	56.94	59.22	83.33	78.16	53.93	60.20	84.62	51.90	85.93	68.37	62.61
3.3. Have you adopted an action plan (plan of activities) to establish a financial management and control system?	41.86	100.00	44.44	40.42	66.67	63.22	45.03	42.51	65.68	46.98	73.00	58.36	47.18
3.4. Have you determined the tasks of the persons responsible for financial management and control, working groups, as well as deadlines for their execution?	79.07	100.00	58.33	49.40	83.33	74.71	54.45	52.50	76.92	51.90	82.51	65.87	56.44
3.5. Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system?	86.05	100.00	79.17	71.62	91.67	85.06	70.16	72.99	88.17	66.67	92.02	78.38	74.58
3.7. Did the managers and staff tasked with financial management and control attend training in this field?	44.19	100.00	52.78	27.19	80.56	55.17	44.50	32.19	69.82	29.98	72.62	50.40	37.56
3.8. Did you draw up business process maps?	55.81	100.00	51.39	28.92	75.00	59.77	36.65	33.14	72.19	37.14	70.34	53.81	39.24
3.9. Have you started compiling a list of business processes with descriptions? (only in case a map of business processes was not compiled)	47.37	0,00	34.29	30.71	66.67	71.43	38.89	41.34	42.55	28.67	58.75	43.32	41.93
3.11. Did you adopt a risk management strategy?	67.44	100.00	41.67	40.12	69.44	66.67	65.45	44.75	76.92	44.97	75.29	60.18	49.30
3.12. Have you developed a risk register?	62.79	100.00	43.06	33.95	69.44	63.22	54.97	38.71	67.46	40.27	65.78	53.13	42.96
3.13. Are internal controls in business processes in place, taking into account the major risks?	74.42	100.00	58.33	45.03	86.11	68.97	68.06	49.98	73.96	50.56	77.57	63.14	53.86
3.14. Did you set up an audit board or audit commission?	0.00	25.00	1.39	3.59	66.67	13.79	3.66	4.99	1.78	2.24	1.90	2.05	4.12
3.15. Have you designated an internal unit for planning documents and management support in line with	31.71	/	33.33	/	/	/	/	32.52	/	/	/	0.00	32.52

	CENTRAL LEVEL							LOCAL LEVEL				TOTAL – ALL PFBs	
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs		LOCAL – TOTAL
Article 21a of the Regulation on principles for internal organization and staff establishment in ministries, special organizations and government services (RS Official Gazette No. 81 of 4 September 2007 – revised text, No. 69 of 18 July 2008, No. 98 of 12 October 2012, No. 87 of 4 October 2013, No. 2 of 16 January 2019, No. 24 of 19 March 2021)? (TO BE ANSWERED BY MINISTRIES, THEIR ADMINISTRATIVE BODIES AND SPECIAL ORGANIZATIONS)													

1. CONTROL ENVIRONMENT

	CENTRAL LEVEL							LOCAL LEVEL				IN TOTAL – ALL PFBs	
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs		LOCAL – TOTAL
4.1. Is there a code of conduct at the level of institution?	4.37	5.00	4.49	4.49	4.58	4.40	4.79	4.51	4.75	3.67	4.05	3.99	4.36
4.2. Is there a procedure in place to ensure that all employees as well as other interested parties are made familiar with the code of conduct?	4.63	5.00	4.29	4.30	4.28	4.07	4.39	4.30	4.41	3.53	3.73	3.76	4.14
4.3. Is there a procedure in place for monitoring non-compliance with the code of conduct?	3.86	5.00	3.57	3.88	3.81	3.56	3.59	3.83	3.72	3.15	3.29	3.30	3.67
4.4. Are measures applied in cases of violation of the code?	4.30	4.75	3.13	3.64	3.75	3.45	3.51	3.62	3.14	2.75	3.05	2.92	3.41
4.5. Are there rules in place which define potential conflicts of interest and actions to be taken for resolving these?	4.60	5.00	4.07	3.85	4.11	3.76	3.84	3.88	3.88	3.35	3.58	3.52	3.77
4.6. Did the organization define clear rules on whistleblowing to facilitate reporting of suspicions of fraud, irregularities in financial reporting, contract awards, etc., or irregular handling of equipment, misrepresentation, and false information and similar?	4.58	5.00	3.97	4.20	4.56	4.46	4.39	4.23	3.98	3.56	4.38	3.89	4.13
4.7. Are the managers assured that risk management, internal control and internal audit processes are useful, i.e., contributing significantly to the achievement of goals?	4.42	4.50	4.18	3.77	4.44	4.28	3.99	3.85	3.94	3.68	4.05	3.84	3.85

	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
4.8. Is the oversight body fulfilling its function in terms of overseeing the internal control system independently of the organization's management? (answer only if your PFB has an oversight body)	1.40	4.00	1.25	2.61	4.59	3.98	3.16	2.80	2.26	3.55	3.72	3.45	3.00
4.9. Does the oversight body consist of expert practitioners who have the capacity to perform appropriate oversight of the internal control system critically and thoroughly? (answer only if your PFB has an oversight body)	1.33	5.00	1.50	2.48	4.65	3.97	3.19	2.71	2.32	3.30	3.73	3.34	2.91
4.10. Have you adopted the annual work programmes?	4.60	5.00	4.08	4.75	4.86	4.54	4.62	4.71	3.86	4.71	4.87	4.59	4.67
4.11. Is there a detailed description of the job, authorities, and responsibilities for every position?	4.84	5.00	4.96	4.81	4.89	4.84	4.90	4.83	4.62	4.75	4.87	4.76	4.81
4.12. Are the lines of authority and responsibility defined within the organizational structure?	4.84	5.00	4.86	4.50	4.75	4.75	4.64	4.55	4.52	4.33	4.58	4.44	4.52
4.13. Has the organization's management established and reviewed adequate reporting lines both within the organization and to other organizations?	4.35	5.00	4.07	3.98	4.19	4.30	4.18	4.03	3.85	3.78	3.95	3.85	3.97
4.14. Have you defined the mission and vision of the organization?	4.51	5.00	4.24	4.36	4.83	4.75	4.45	4.39	4.05	4.13	4.82	4.32	4.37
4.15. Have you defined and adopted the strategic goals?	4.37	4.75	4.10	4.15	4.61	4.54	4.30	4.19	4.01	3.83	4.54	4.08	4.16
4.16. Have you adopted an HR policy (strategy)?	4.40	3.00	4.53	4.00	3.94	3.89	4.46	4.06	4.30	3.39	3.91	3.72	3.96
4.17. Are the levels of required skills and competencies for each job specified?	4.84	5.00	4.88	4.74	4.81	4.78	4.81	4.75	4.59	4.66	4.76	4.67	4.73
4.18. Have you devised a general plan and enabled employee access to trainings that are in line with the organization's objectives?	4.14	4.75	3.96	4.19	4.31	4.13	4.21	4.18	3.69	3.48	3.49	3.52	3.99
4.19. Does the organization provide for periodic trainings to ensure that employees are familiar with their duties and competent in the internal control field?	2.72	4.00	2.90	2.48	3.47	3.10	2.76	2.57	3.03	2.37	2.96	2.67	2.60
4.20. Do you regularly assess employees' competencies?	4.79	4.25	4.85	3.50	3.06	3.25	3.36	3.54	4.09	2.41	2.62	2.80	3.32
4.21. Are the job candidates' qualifications, knowledge and previous work experience checked?	4.84	4.75	4.72	4.40	4.36	4.28	4.31	4.41	4.61	3.98	3.90	4.08	4.31
4.22. Is there a system in place for regular performance appraisal of employees?	4.84	3.75	4.81	3.21	3.22	3.37	3.44	3.33	4.35	2.28	2.92	2.87	3.19
4.23. Do you motivate employees (rewards and punishments) in accordance with their performance / output?	4.63	4.50	4.49	3.28	3.86	3.95	3.53	3.41	2.91	2.47	3.59	2.89	3.26

	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
4.24. Does the management assess the workload of staff and reallocate excess workload to ensure that work is performed in accordance with the organization’s objectives?	3.77	4.75	3.90	3.40	3.92	3.99	3.54	3.47	3.07	2.89	3.40	3.07	3.36
4.25. Is regular reporting on risk management, internal control, and internal audit mandatory within the organization?	4.12	5.00	3.71	3.35	4.17	3.85	3.43	3.42	3.57	3.11	3.62	3.35	3.40
4.26. Is there an effective mechanism in place for accountability of executives at all levels for their decisions, actions, and results to the entity that appointed them or delegated such authority upon them?	4.16	4.75	3.97	3.78	4.47	4.30	3.96	3.85	3.79	3.56	3.91	3.71	3.81
AVERAGE SCORE	4.16	4.67	3.98	3.85	4.25	4.10	3.99	3.90	3.82	3.49	3.86	3.67	3.83

2. RISK MANAGEMENT

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
5.1. Have you adopted and defined the operational goals?	4.65	5.00	4.10	3.79	4.67	4.34	4.10	3.89	3.91	3.56	4.31	3.85	3.88
5.2. Is there a link between strategic and operational goals?	4.51	4.75	3.78	3.61	4.56	4.23	3.97	3.71	3.68	3.44	4.02	3.66	3.70
5.3. Do you set goals which are specific, measurable, attainable, realistic, and time-bound (SMART)?	4.56	4.75	3.92	3.33	4.28	3.90	3.83	3.46	3.78	3.18	3.91	3.52	3.48
5.4. Are the managers and employees made familiar with the organization’s strategic and operational goals?	4.65	4.75	4.18	3.86	4.56	4.36	4.14	3.95	3.89	3.65	4.20	3.86	3.92
5.5. Are revenues and expenditures projected and planned in compliance with the set goals of the organization?	4.77	5.00	4.69	4.54	4.78	4.75	4.64	4.57	4.33	4.49	4.64	4.51	4.55
5.6. Does the management define the objectives of external reporting which are in accordance with the relevant laws and regulations, as well as standards and framework of relevant external organizations?	4.14	5.00	3.89	3.92	4.47	4.45	4.16	3.98	3.76	3.80	4.22	3.92	3.96
5.7. Are the organization’s objectives aligned with the appropriate laws and regulations?	4.74	5.00	4.72	4.51	4.75	4.77	4.58	4.54	4.37	4.38	4.60	4.44	4.51
5.8. Is the risk register being regularly updated, in accordance with the needs of the organization?	4.23	4.75	4.26	3.53	3.80	4.29	3.55	3.66	3.22	3.33	3.40	3.33	3.54

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
5.9. Have you identified the risks related to key business processes?	4.07	4.75	3.38	2.99	4.33	3.89	3.61	3.14	3.70	3.03	3.89	3.42	3.22
5.10. Have you identified the risks to the set objectives of the organization?	4.05	4.75	3.44	3.01	4.31	3.84	3.50	3.15	3.72	3.06	3.89	3.43	3.23
5.11 Did you conduct a risk assessment?	4.05	5.00	3.35	3.11	3.97	3.86	3.72	3.25	3.53	3.06	3.95	3.41	3.29
5.12. Is there a practice/in place in place for regularly reporting to the management on risks?	3.67	4.50	3.32	2.99	3.94	3.68	3.43	3.11	3.14	2.95	3.41	3.12	3.11
5.13. Are strategic and operational risks reviewed at management meetings?	3.79	4.50	3.53	3.18	4.19	4.03	3.73	3.31	3.30	3.10	3.71	3.32	3.31
5.14. Do managers make decisions to manage identified risks (risk response – risk tolerance, avoidance, mitigation, allocation)?	3.84	4.75	3.40	3.08	4.11	3.80	3.49	3.19	3.09	3.00	3.52	3.17	3.19
5.15. Do the risks include the risks of fraud and corruption?	3.84	4.75	3.49	3.15	3.78	3.61	3.70	3.26	3.50	3.18	3.59	3.37	3.29
5.16. Does the organization have mechanisms in place for identifying and responding to risks resulting from changes in the external environment (changes in regulations, market changes, etc.) or internal environment (changes in management, organizational structure)?	3.65	4.50	3.39	2.94	3.92	3.75	3.37	3.06	3.10	2.75	3.35	3.00	3.04
AVERAGE SCORE	4.20	4.78	3.80	3.47	4.28	4.10	3.85	3.58	3.63	3.37	3.91	3.58	3.58

3. CONTROL ACTIVITIES

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
6.1. Are the business processes accompanied by detailed descriptions, including documentation flow, steps in decision-making, deadlines for job completion and established control mechanisms?	4.26	4.50	3.88	3.44	4.17	4.11	3.84	3.55	4.08	3.46	4.00	3.74	3.61
6.2. Do the written procedures consider the risks relating to specific activities?	4.21	4.75	3.51	3.14	3.92	3.76	3.62	3.26	3.79	3.14	3.88	3.49	3.33
6.3. Do the written procedures contain the descriptions of all internal controls?	4.12	4.75	3.47	3.08	3.86	3.82	3.59	3.21	3.76	3.09	3.82	3.44	3.28
6.4. Have you ensured that the same person cannot perform two or more of the following duties: proposing	4.58	4.75	4.15	3.39	4.08	4.13	3.80	3.52	4.14	3.37	3.93	3.68	3.57

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
approving, executing, and recording business changes (which entails appropriate segregation of duties)?													
6.5. If, due to the size of the organization, it is not possible to meet the requirements from the previous question, are there mechanisms in place to compensate for this (e.g., enhanced control or oversight)?	3.54	4.67	3.46	3.03	3.56	3.82	3.43	3.13	3.39	3.18	3.47	3.31	3.18
6.6. Are there procedures and rules in place to ensure information security?	4.53	5.00	4.11	3.93	4.50	4.33	4.25	4.00	4.06	3.67	4.05	3.86	3.96
6.7. Have you ensured that only authorized persons may access material, financial and other resources (data, records)?	4.67	5.00	4.58	4.33	4.64	4.60	4.47	4.38	4.36	4.07	4.30	4.19	4.32
6.8. Did the organization establish control mechanisms within the procedures regulating the processes of procurement, development, and maintenance of technological infrastructure?	3.88	4.75	3.57	3.40	4.33	4.07	3.81	3.50	3.72	3.05	3.64	3.35	3.46
6.9. Are there procedures and rules that guarantee the security of IT systems (passwords are changed regularly, limited access to IT data, data backup, etc.)?	4.40	5.00	4.18	3.89	4.69	4.41	4.38	3.99	4.25	3.69	4.14	3.93	3.98
6.10. Are the competent and responsible persons performing control activities in a timely and competent fashion, in line with the policies and procedures of the organization?	4.12	4.75	3.94	3.76	4.25	4.26	3.99	3.83	3.82	3.70	3.84	3.76	3.81
6.11. Does the organization conduct periodic reviews of control policies and procedures to ensure their continued relevance and improvement?	3.51	4.75	3.07	2.61	3.97	3.55	3.09	2.76	2.73	2.39	2.92	2.62	2.71
6.12. Are corrective actions being taken in the organization to eliminate identified weaknesses in the internal control system?	4.09	4.75	3.35	3.17	4.08	3.89	3.38	3.26	3.47	3.03	3.40	3.22	3.25
AVERAGE SCORES	4.16	4.78	3.77	3.43	4.17	4.06	3.80	3.53	3.80	3.32	3.78	3.55	3.54

4. INFORMATION AND COMMUNICATION

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. Bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. Bodies)	IBBs	Pes	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
7.1. Did the management of the organization identify and clearly define the information needs of relevant persons?	3.95	5.00	3.78	3.63	4.22	4.01	3.96	3.70	3.85	3.30	3.81	3.56	3.66
7.2. Does the information and communication system enable monitoring of the realization of set goals and implementation of efficient work supervision in the organization?	4.37	4.75	4.04	3.77	4.28	4.28	4.02	3.85	3.85	3.57	3.92	3.73	3.81
7.3. Is there an effective and efficient system in place for written, electronic and verbal communication, enabling staff to obtain the information they need to accomplish their tasks?	4.53	5.00	4.29	4.23	4.56	4.43	4.40	4.27	4.13	4.00	4.09	4.05	4.21
7.4. Are reports for management regularly prepared (revenues generated, execution of financial and other plans, available funds, liabilities, receivables...)?	4.63	5.00	4.72	4.57	4.75	4.68	4.70	4.60	4.58	4.54	4.64	4.58	4.59
7.5. Do the managers receive the information on available funds for the realization of activities within their scope of competence?	4.65	5.00	4.75	4.48	4.72	4.61	4.55	4.51	4.60	4.44	4.48	4.48	4.50
7.6. Is there regular communication between management and the supervisory body (board of directors/supervisory board), to ensure that both parties have adequate information to perform their roles? (to be answered by public funds beneficiaries that have a supervisory body)	1.78	5.00	2.74	4.16	4.84	4.60	4.57	4.22	3.19	4.53	4.63	4.43	4.28
7.7. Are transparency and timely disclosure of information to external stakeholders maintained in the organization (key documents published on the website, etc.)?	4.77	5.00	4.72	4.39	4.75	4.53	4.63	4.45	4.60	4.27	4.55	4.42	4.44
7.8. Does the leadership of the organization receive and review information from external sources concerning new trends or circumstances, etc., that could significantly impact the achievement of the organization's goals?	4.26	5.00	4.24	3.93	4.47	4.41	4.23	4.00	3.92	3.87	4.00	3.92	3.98
7.9. Are existing procedures and methods of external communication analysed?	3.98	4.75	3.71	3.60	4.14	3.98	3.74	3.65	3.46	3.47	3.66	3.53	3.62
AVERAGE SCORE	4.10	4.94	4.11	4.09	4.53	4.39	4.31	4.14	4.02	4.00	4.20	4.08	4.12

5. MONITORING (OVERSIGHT) AND EVALUATION

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. Bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. Bodies)	IBBs	Pes	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
8.1. Has the top management implemented a monitoring and information system that enables them to get regular reports on the functioning of the financial management and control system for which they are accountable?	4.09	5.00	3.71	3.30	4.03	3.75	3.51	3.38	3.49	3.42	3.52	3.46	3.41
8.2. Is there a reporting structure enabling objectivity and independence of internal audit?	3.67	5.00	2.60	2.45	4.00	3.07	2.75	2.56	3.04	2.70	2.78	2.79	2.63
8.3. Is the achievement of the organization's objectives regularly monitored?	4.47	5.00	3.94	3.73	4.61	4.11	3.97	3.81	3.53	3.88	4.27	3.93	3.84
8.4. Are the causes of any deviations from the established goals of the organization analysed?	4.40	5.00	3.89	3.64	4.44	4.11	4.03	3.74	3.36	3.64	4.11	3.73	3.74
8.5. Does the manager accept and implement internal audit recommendations?	4.05	4.75	2.54	2.63	3.94	2.86	2.72	2.70	3.16	3.32	2.83	3.14	2.83
8.6. Are external audit recommendations implemented?	4.53	5.00	3.60	3.40	4.50	3.92	4.04	3.53	4.63	4.11	4.46	4.31	3.76
8.7. Is the implementation of recommendations issued by external and internal auditors monitored?	4.40	4.75	3.51	3.31	4.39	3.90	3.87	3.43	4.34	4.06	4.28	4.18	3.65
8.8. Are the internal and external audit reports available to the staff working in the areas covered by the reports?	4.35	4.75	3.58	3.27	4.58	3.89	3.73	3.40	4.43	3.91	4.29	4.12	3.61
8.9. Is there a procedure in place enabling staff to inform the management about identified weaknesses in the internal control system?	3.44	4.50	2.94	2.90	3.75	3.22	3.03	2.95	3.25	2.99	3.19	3.10	3.00
8.10. Is the realization of activities from the action plan for the establishment and development of financial management and control monitored?	4.56	4.50	3.75	3.83	4.17	4.33	3.46	3.85	3.81	3.77	3.60	3.71	3.80
8.11. Are any measures undertaken in case of failure to perform the activities referred to in the action plan?	4.33	4.00	3.11	3.26	3.52	3.31	3.29	3.30	3.39	2.87	3.13	3.09	3.22
8.12. If your organization is a direct budget beneficiary that has indirect budget beneficiaries within its remit, do you monitor the functioning of their internal control systems? (to be filled in only by direct budget beneficiaries that have indirect budget beneficiaries within their remit)	2.71	/	2.57	/	/	/	/	2.64	2.92	/	/	2.92	2.90
8.13. If your organization is a direct budget beneficiary that has indirect budget beneficiaries within its remit, do you monitor the achievement of their objectives? (to be filled in only	3.29	/	2.00	/	/	/	/	2.64	3.57	/	/	3.57	3.48

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. Bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. Bodies)	IBBs	Pes	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
by direct budget beneficiaries who have indirect budget beneficiaries within their remit)													
AVERAGE SCORE	4.02	4.75	3.21	3.25	4.18	3.68	3.49	3.23	3.61	3.52	3.68	3.54	3.37

Table 2. Overview of results in the management of irregularities (in %)

MANAGEMENT OF IRREGULARITIES			
PFB		Did you have any confirmed suspicion of irregularities?	Are confirmed irregularities being addressed? (only organizations that have confirmed suspicions of irregularities shall answer this question)
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	6,98	100,00
	MSIO	0,00	/
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	4,17	100,00
	IBBs	3,47	96,55
	PEs	25,00	88,89
	OTHER PFBs (excluding PEs)	9,20	100,00
	USERS OF NHIF FUNDS	9,42	100,00
	CENTRAL LEVEL – TOTAL	4,71	96,97
LOCAL LEVEL	DBBs	10,06	88,24
	IBBs	7,61	97,06
	OTHER PFBs	9,13	100,00
	LOCAL LEVEL - TOTAL	8,53	96,00
TOTAL – ALL PFBs		5,84	96,55

Table 3. Overview of the ways in which irregularities in the organization were resolved (in %)

Confirmed irregularities were addressed/resolved: (to be answered only by the organizations concerned)				
PFB		Internally	Externally	Both internally and externally
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	33,33	0,00	66,67
	MSIO	0,00	0,00	0,00

	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	100,00	0,00	0,00
	IBBs	66,07	1,79	32,14
	PEs	62,50	0,00	37,50
	OTHER PFBs (excluding PEs)	75,00	0,00	25,00
	USERS OF NHIF FUNDS	55,56	0,00	44,44
	CENTRAL LEVEL – TOTAL	64,58	1,04	34,38
LOCAL LEVEL	DBBs	60,00	0,00	40,00
	IBBs	72,73	0,00	27,27
	OTHER PFBs	45,83	0,00	54,17
	LOCAL LEVEL - TOTAL	61,11	0,00	38,89
TOTAL – ALL PFBs		63.10	0.60	36.31

Table 4. Overview of the functioning of the system in conditions of the pandemic (in %)

Check the statements that are generally applicable to your organization due to the pandemic:							
PFB		Objectives were achieved to a lesser extent	Objectives were not achieved within the planned time frame	The workload has increased	The level of controls was reduced	We adjusted the work plans to the situation	None of the above
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	4,65	4,65	25,58	6,98	86,05	4,65
	MSIO	0,00	25,00	50,00	0,00	100,00	0,00
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	8,33	4,17	37,50	0,00	81,94	2,78
	IBBs	7,84	5,09	26,77	1,92	88,62	3,05
	PEs	27,78	25,00	8,33	2,78	91,67	0,00
	OTHER PFBs (excluding PEs)	21,84	9,20	13,79	3,45	88,51	2,30
	USERS OF NHIF FUNDS	30,37	6,81	54,97	6,81	78,53	3,14
	CENTRAL LEVEL – TOTAL	10,75	5,75	28,86	2,47	87,49	3,00
LOCAL LEVEL	DBBs	16,57	12,43	14,20	9,47	81,07	4,73
	IBBs	21,48	4,03	8,72	1,12	89,49	1,57
	OTHER PFBs	25,10	6,46	18,25	4,56	76,81	3,04
		LOCAL LEVEL - TOTAL	21,62	6,37	12,63	3,75	84,07
TOTAL – ALL PFBs		13,95	5,94	24,08	2,85	86,49	2,88

Table 5. Overview of use of methodological tools for the establishment and further development of the FMC system (in %)

Are you using any of the listed methodological tools for the establishment and further development of the FMC system, which are available on the website of the Ministry of Finance - Central Harmonization Unit?

PFBs		Irregularity Management Guidelines	Risk Management Guidelines	Managerial Accountability Guidelines	Delegation System Guidelines	FMC Guidelines for Small Public Funds Beneficiaries	None of the above
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	41.86	74.42	37.21	27.91	18.60	18.60
	MSIO	100.00	100.00	75.00	75.00	0.00	0.00
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	36.11	47.22	30.56	15.28	55.56	18.06
	IBBs	23.35	39.64	17.37	7.07	41.86	32.75
	PEs	47.22	77.78	47.22	25.00	22.22	13.89
	OTHER PFBs (excluding PEs)	43.68	63.22	39.08	24.14	29.89	21.84
	USERS OF NHIF FUNDS	38.22	49.21	29.84	14.66	21.47	35.08
	CENTRAL LEVEL – TOTAL	26.91	43.22	20.87	9.61	39.09	31.34
LOCAL LEVEL	DBBs	44.97	61.54	33.14	23.67	22.49	27.81
	IBBs	17.67	34.00	12.53	5.59	40.49	36.91
	OTHER PFBs	33.84	61.60	25.10	13.69	30.80	16.35
	LOCAL LEVEL - TOTAL	27.76	47.55	20.25	11.49	34.13	29.01
TOTAL – ALL PFBs		27.16	44.50	20.69	10.16	37.63	30.65

Annex 3. Overview of PFBs that established internal audit

CENTRAL GOVERNMENT TIER

Table 1. Number of established IA, systematized and filled internal auditor positions in PFB institutions at central level in 2021

PFB		Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
Central level	Ministries with constituent bodies	31	32 ⁴⁵	19	106	67
	MSIO	4	4	4	32	29
	Other DBBs	63	23	18	45	39
	IBBs ⁴⁶	862	19	8	14	15
	PEs at central level	32	29	21	121	83
	Other PFBs	59	34	21	61	51
	Users o NHIF funds	133	64	34	97	70
	Total	1,184	196	125	476	354

IA is established in all MSIOs, both at normative and functional level; 32 internal auditor jobs are planned for in the staff establishment and 29 internal auditor positions are filled. Of the remaining PFBs at central level, 169 have a normative IA and 102 a functional one; 338 internal auditor positions have been systematized and 258 filled.

Based on the data on PFBs at central level, we can see that there has been a 10% increase in the number of normatively established audits, a 6% increase in the number of functionally established audits, and a 1% increase in the number of systematized IA positions, as well as a 3% increase in the number of internal auditor positions filled in 2021 relative to 2020. This growth was mainly due to the growth in the NHIF fund users' category, i.e., public healthcare facilities.

⁴⁵ This number includes normatively established IAs in 19 ministries (according to the annual reports submitted) and separate IAs in four administrations (Treasury Administration, Tax Administration and Customs Administration in the Finance Ministry and Agrarian Payments Administration in the Ministry of Agriculture, Forestry and Water Management)

⁴⁶ These are indirect budget beneficiaries (IBBs) at the central level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is performed by the direct budget beneficiary, pursuant to Art. 5(3) of the IA Rulebook.

MINISTRIES

The internal audit function has been normatively established in 19 of a total of 21 ministries. All ministries submit their Annual Reports. A total of 67 positions were systematized (i.e., introduced in the staff establishment), which is a 7% increase relative to the previous year. In the Ministry of Human and Minority Rights and the Ministry of Family Welfare and Demography, which were established the previous year, the internal audit function has not even been established at the normative level.

Table 2. IA function, by ministry, in 2021

Ministry name	Normative IA	Functional IA	Number of auditors	Ministry has IBBs
Ministry of Human and Minority Rights	No	No	0	None ⁴⁷
Ministry of Family Welfare and Demography	No	No	0	None
Ministry of Rural Welfare	Yes (not in accordance with the IA Rulebook)	No	0	None
Ministry of Environmental Protection	Yes	No	0	None
Ministry of Youth and Sport	Yes	No	1	No
Ministry of European Integration	Yes	Yes	1	None
Ministry of Economy	Yes	Yes	1	Yes
Ministry of Trade, Tourism and Telecommunications	Yes	Yes	1	None
Ministry of Foreign Affairs	Yes	No	2	None
Ministry of Mining and Energy	Yes	Yes	2	None
Ministry of Construction, Transport and Infrastructure	Yes	Yes	2	None
Ministry of Public Administration and Local Self-Government	Yes	Yes	2	None
Ministry of Labour, Employment, Veteran and Social Affairs	Yes	Yes	2	Yes

⁴⁷ The ministry has no indirect budget beneficiaries under its responsibility.

Ministry name	Normative IA	Functional IA	Number of auditors	Ministry has IBBs
Ministry of Agriculture, Forestry and Water Management	Yes	Yes	3	None
Ministry of Education, Science and Technological Development	Yes	Yes	3	Yes
Ministry of Health	Yes	Yes	3	No
Ministry of Finance	Yes	Yes	3	n/a
Ministry of Justice	Yes	Yes	3	Yes
Ministry of Defence	Yes	Yes	4	No
Ministry of Culture and Information	Yes	Yes	4	Yes
Ministry of Internal Affairs	Yes	Yes	9	Yes

As shown in Table 2, in the Ministry of Rural Welfare, the normatively established internal audit function is not compliant with the IA Rulebook, in other words, this ministry does not have an internal audit unit with at least three internal auditors.

Fifteen ministries have established a functional IA, i.e., one that has produced at least one audit report in the reporting period. In 13 ministries, the IA units do not meet the statutory minimum requirement of having three internal auditors on staff. The reasons for this, as reported by the ministries, are employment restrictions as part of the austerity measures in Serbia, low salaries in the public sector relative to the private sector, as well as the natural staff attrition rate, resulting in the departure of internal auditors from the public sector and difficulties to recruit new ones. Comparing these data with the previous year, we notice a slight increase in the number of employed internal auditors in the ministries' group.

LOCAL LEVEL

Table 3. Number of internal audits in place, systematized and filled internal auditor positions at PFBs of local self-government in 2021

PFB		Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
Local level	LSG DBBs	118	79	40	146	100

PFB		Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
	LSG IBBs ⁴⁸	185	0	0	**0	0
	Other PFBs (PUCs and similar) founded by the LSG	160	84	46	106	84
	Total	463	163	86	252	184

According to the 118 reports received from the Autonomous Province of Vojvodina, the City of Belgrade, towns and municipalities, 79 direct beneficiaries of local government funds have normatively established an internal audit function, i.e., an IA unit function that has produced at least one audit report in the reporting period. These PFBs have planned for a total of 146 positions for internal auditors, of which 100 are filled.

The data on PFBs at local government level, which are presented herein, reveal a 12% increase in the number of normatively established audits, a 2% increase in the number of functionally established audits, in parallel with a 3% growth in the number of systematized internal auditor position and a 2% increase filled internal auditor positions in 2021 relative to 2020.

As shown in Table 4, the Autonomous Province of Vojvodina has established a normative and functional internal audit in accordance with the IA Rulebook. As regards the cities, three out of 28 cities did not submit their annual reports for 2021. Out of those that submitted their annual reports, 12 cities failed to normatively establish the internal audit pursuant to the IA Rulebook, i.e., an internal audit unit with a minimum of three internal auditor positions included in the staffing plan. Furthermore, 21 of a total of 28 cities do not have a staffed internal audit unit with a minimum of three internal auditors.

Table 4. IA function in key PFBs at local level in 2021

PFB	Normative IA	Functional IA	Number of auditors	PFB includes IBBs
AP Vojvodina	Yes	Yes	4	n/a
City of Belgrade	Yes	Yes	16	Yes
Novi Sad	Yes	Yes	5	Yes
Niš	Yes	Yes	3	Yes
Subotica	Yes (not compliant with the IA Rulebook)	Yes	1	Yes

⁴⁸ Only shows the number of IBBs at the local government level that independently established the internal audit function and not all other IBBs in which the internal audit function is performed by the responsible direct budget beneficiary pursuant to Article 6, para. 2 and 4 of the IA Rulebook.

PFB	Normative IA	Functional IA	Number of auditors	PFB includes IBBs
Kragujevac	Yes	Yes	4	Yes
Novi Pazar	Yes	Yes	4	Yes
Kruševac	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Vranje	Yes (not compliant with the IA Rulebook)	Yes	2	Yes
Kikinda	Yes (not compliant with the IA Rulebook)	No	1	Yes
Pančevo	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Sremska Mitrovica	Yes (not compliant with the IA Rulebook)	No	2	n/a
Loznica	Yes	Yes	2	Yes
Pirot	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Požarevac	Yes	Yes	1	Yes
Prokuplje	Yes	Yes	3	Yes
Jagodina	No	No	0	n/a
Užice	Yes	Yes	5	Yes
Zrenjanin	Yes	Yes	1	Yes
Bor	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Valjevo	Yes	Yes	2	Yes
Čačak	Yes	No	0	No
Leskovac	Yes (not compliant with the IA Rulebook)	No	0	n/a
Vršac	Yes (not compliant with the IA Rulebook)	No	1	Yes
Kraljevo	Yes	No	1	Yes
Šabac	Yes (not compliant with the IA Rulebook)	Yes	1	Yes

PFB	Normative IA	Functional IA	Number of auditors	PFB includes IBBs
Zaječar	n/a ⁴⁹			
Sombor				
Smederevo				

NUMBER OF AUDITORS IN PFBs

Table 5 shows the total number of PFBs, at the level of the entire public sector that have a functional IA and at least one filled internal auditor position, i.e., 180 PFBs.⁵⁰ Expressed in percentages, 63% of PFBs have established the IA function with one internal auditor, 12% with two internal auditors, and 25% with three or more. Compared to the previous year, we can see a trend of slight increase in the share of single internal auditors in the total number of established internal audit functions, which reveals the predominance of small public funds beneficiaries in the process of establishing IA in the previous reporting period.

Table 5. Overview of the total number of PFBs that established the IA function with systematized and filled internal auditor positions

PFB		1 auditor	2 auditors	3 or more auditors
Central level	Ministries with constituent administrative bodies	3	4	12
	MSIO	0	0	3
	Other DBBs	9	2	3
	IBBs	6	0	0
	PEs at central level	9	3	8
	Other PFBs	15	1	2
	Users of NHIF funds	23	2	5
	Total	65	12	33
Local level	LSG DBBs	25	4	8
	LGU IBBs	0	0	0
	Other PFBs (PUCs and similar) funded by the local government	23	5	5
	Total	48	9	13
Total in Serbia		113	21	46
Total PFBs with filled IA positions		180		

⁴⁹ The listed cities failed to submit their Annual Report for 2021.

⁵⁰ A total of 211 PFBs have a functional IA. When, from this number, we subtract the number of PFBs in which other PFBs are performing IA tasks under an agreement, as well as the number of PFBs that have outsourced IA under a service agreement, we get 180 PFBs.

Annex 4. Form for the annual report on audits and internal audit activities

(header of the public funds beneficiary)

ANNUAL REPORT ON AUDITS AND INTERNAL AUDIT ACTIVITIES

for 2021

GENERAL SECTION

1. GENERAL INFORMATION ON THE PUBLIC FUNDS BENEFICIARY:	
Head of PFB (job title, name and surname):	
Name of the internal audit unit / Name and surname of internal auditor ⁵¹ :	
Head of internal audit unit (job title, name and surname):	
Phone:	e-mail:
Public funds beneficiary's unique identifier (PFB ID) in the List of PFBs:	
Total amount of planned expenses in the reporting period (for the PFB, in RSD):	
Total number of staff in positions envisaged in the staffing establishment plan (under the PFB's internal general act), as on 31 December:	
Total number of positions filled, as on 31 December:	
2. INFORMATION ON THE INTERNAL AUDIT UNIT AND INTERNAL AUDITORS	
2.1. Normative framework for internal audit is in place ⁵² :	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.2. If YES, state the name, number and date of the internal act:	
2.3. Specify the number of participants in the training for acquiring the professional title of certified internal auditor in the public sector: ⁵³	
- theoretical	
- theoretical and practical	

⁵¹ Only if the internal audit unit is not in place

⁵² For multiple choice questions, please select a single answer by checking the appropriate box

⁵³ Including attendees that started the training before the reporting period and are still in the training process.

<p>2.4. The following type of internal audit function is in place:</p> <p>1) <input type="checkbox"/> independent internal audit unit</p> <p>2) <input type="checkbox"/> internal auditor</p> <p>3) <input type="checkbox"/> joint internal audit unit for several PFBs</p> <p>4) <input type="checkbox"/> agreement with another PFB for the provision of internal audit services</p> <p>When an agreement has been signed with another PFB for establishing a joint internal audit unit, please state the name of the PFBs establishing a joint unit, as well as the number and date of the agreement:</p> <p>When agreement has been signed with another PFB for the delivery of internal audit services, please state the name of the PFB providing these services, as well as the number and date of agreement:</p>				
2.5. Does the internal audit unit/internal auditor directly and exclusively report to the Head of PFB, at the organizational and functional level?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.6. If NO, state to whom it reports and the reason why:				
2.7. If the PFB is a direct budget beneficiary responsible for indirect budget beneficiaries, does the internal audit unit, based on the risk assessment and in accordance with its work plan, perform the internal audit function in the indirect budget beneficiaries under its responsibility? ⁵⁴				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.8. If NO, state the reason:				
2.9. Has the head of the internal audit unit been appointed?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.10. If YES, does the appointed head of internal audit meet the requirements with regard to professional experience prescribed under Art. 22 of the Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector (RS Official Gazette No. 99/2011 and 106/2013)?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.11. Staffing level (fill rate) and pay grades for the internal audit unit/internal auditor positions (enter in numerical format):				
Job title/post	Number of internal auditor positions systematized (i.e., envisaged in the staffing plan)	Filled posts	Job coefficient	Taxable wage base (in December)
1	2	3	4	5
Attached to this Report, please submit a list with the names, surnames, job titles and number of certificates awarded to certified internal auditors in the public sector ⁵⁵ , for all internal audit employees in the reporting period – in the annex to this Report.				
2.12. Is performing internal audits the sole task of internal audit?				Yes <input type="checkbox"/> No <input type="checkbox"/>

⁵⁴ To be completed only by direct budget beneficiaries that are responsible for indirect budget beneficiaries.

⁵⁵ The filing number of the certificate awarded to a certified public sector internal auditor is to be entered only for staff engaged in internal audit-related work who have acquired this title in line with the Rulebook on the requirements and procedure for taking the exam for acquiring the title of certified internal auditor in the public sector (RS Official Gazette No 9/2014).

2.13. If NO, please specify which other tasks are performed by the IA and state the reason:	
2.14. Internal auditors have full, free, and unlimited right of access to:	
a) all documentation and records	Yes <input type="checkbox"/> No <input type="checkbox"/>
b) data and information on all data carriers	Yes <input type="checkbox"/> No <input type="checkbox"/>
c) the manager of the public funds beneficiary	Yes <input type="checkbox"/> No <input type="checkbox"/>
d) staff (managers and employees)	Yes <input type="checkbox"/> No <input type="checkbox"/>
e) material assets.	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.15. If NO, state the reason:	
3. COMPLIANCE WITH INTERNAL AUDIT STANDARDS AND WORK METHODOLOGY	
Compliance with the Manual for Internal Auditors	
3.1. Do internal auditors use the Manual for Internal Auditors developed by the Central Harmonization Unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.2. Do internal auditors use other manuals, except for the Manual for Internal Auditors referred to in question 3.1.?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.3. If YES, state the reason:	
3.4. In performing individual audits, internal auditors fully adhere to the phases of the auditing procedure envisaged in the Manual for Internal Auditors referred to in question 3.1.?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.5. If NO, state the reason:	
Internal Auditors' Charter	
3.6. Did the Head of PFB and the head of IA unit/internal auditor sign the internal auditors' charter?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.7. If YES, please submit the charter as an annex to this report, in case of any amendments to the text or signatories in the reporting period.	
3.8. If NO, state the reason:	
Compliance with internal audit standards and the Internal Audit Code of Ethics	
3.9. Do internal auditors adhere to international internal audit standards in performing internal audits?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.10. If NO, state the reason:	
3.11. Did all internal auditors sign the Internal Audit Code of Ethics?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.12. Do internal auditors comply with the principles and rules of the Internal Audit Code of Ethics in their work?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.13. If NO, state the reason and cases of non-compliance:	
Use of methodological tools of the Central Harmonization Unit	
3.14. When conducting an internal audit, do you use any of the methodological tools listed below, which are available on the website of the Ministry of Finance – Central Harmonization Unit?	
1) <input type="checkbox"/> Model for the internal quality review of the performance of internal audit units;	
2) <input type="checkbox"/> Tools for auditing IPA funds of the European Union;	

3) <input type="checkbox"/> Guidelines for auditing cross-sectoral programmes and projects – “horizontal audit”	
4) <input type="checkbox"/> Tools for implementing IT and IT system security audits at PFBs.	
Performance of internal audit	
3.15. Was the internal audit strategic plan developed based on risk assessment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.16. If NO, state the reason:	
3.17. Was the internal audit strategic plan approved by the manager of the PFB in line with Art. 24 of the Rulebook on common criteria for the implementation of and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.18. If NO, state the reason:	
3.19. Is the Internal Audit Strategic Plan available to all staff and executives (forwarded individually, published in the organization’s internal gazette, on its intranet, or website)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.20. Is the Annual Internal Audit Plan developed based on the internal audit strategic plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.21. If NO, state the reason:	
3.22. Is the annual internal audit plan approved by the public funds beneficiary manager, pursuant to Art. 25 of the Rulebook on common criteria for implementing and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.23. If NO, state the reason:	
3.24. Is the Annual Internal Audit Plan available to all staff and managers (forwarded individually, published in the organization’s internal gazette, on its intranet, or website)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Implementation of the annual internal audit plan ⁵⁶	
3.25. Total number of planned assurance services according to the annual plan:	
3.26. Total number of assurance services (“on demand”) planned subsequently:	
3.27. Total number of assurance services performed for which a final audit report was drawn up:	
3.28. Reasons for failure to implement the planned number of assurance services (state the reasons):	
3.29. Total number of consulting services for which reports were drafted:	
3.30. Are the audit reports and consulting service reports regularly sent to the manager of the public funds beneficiary?	
3.31. Does the responsible person in the audited entity complete and decide on the recommendations follow-up plan which lists the accepted recommendations and actions to be taken, persons responsible and deadlines?	
3.32. If NO, state the reasons:	
3.33. Does the internal audit unit/internal auditor keep records of the recommendations made in the audit reports along with data necessary for monitoring follow up?	Yes <input type="checkbox"/> No <input type="checkbox"/>

⁵⁶ This refers to the year for which this report is submitted.

3.34. If NO, state the reason:	
3.35. Number of follow-up assurance services performed, out of the total number planned:	
3.36. Number of follow-up audits on recommendations from the previous reporting period:	
Number of recommendations made, and number of recommendations implemented in the reporting period	
3.37. Number of recommendations made in audit reports ⁵⁷ :	
3.38. Number of audit recommendations not accepted:	
3.39. Number of implemented recommendations:	
3.40. Number of recommendations still not past the implementation deadline:	
3.41. Number of recommendations past the implementation deadline:	
3.42. If there are any recommendations not implemented past the deadline, state the reasons:	
Implementation of recommendations from the previous reporting period:	
3.43. Number of recommendations provided in the previous reporting period that were implemented in the previous and in this reporting period, cumulatively:	
3.44. If there are any recommendations from the previous period past the implementation deadline in this reporting period, state the reasons for non-performance:	
Audit committee	
3.45. Have you established an audit committee as an advisory body on internal audit matters?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.46. Is the audit committee composed of independent members with appropriate professional qualifications?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.47. Does the audit committee examine and advise on the strategic and annual internal audit plan before approving the plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.48. Does the audit committee review and provide advice on the implementation of the annual internal audit plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.49. Specify the terms of reference of the audit committee:	
Continuous professional development of certified internal auditors⁵⁸	
3.50. Does the PFB's internal audit keep records on professional training of certified internal auditors pursuant to Article 10(2) of the Rulebook on professional training of certified internal auditors in the public sector (RS Official Gazette No. 15/2019)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Internal audit unit performance evaluation:⁵⁹	
3.51. Has the head of internal audit established a programme for assessing the quality of the performance of the internal audit unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.52. Does the head of internal audit carry out internal reviews (continuous reviews and periodic self-assessments) pursuant to Art. 19(2) of the Rulebook on common criteria for the implementation of and standards and	Yes <input type="checkbox"/> No <input type="checkbox"/>

⁵⁷ The total number of recommendations made in the reporting period must be equal to the sum of recommendations from all audits performed in the reporting period, presented in the Special Section: Overview of Performed Audits.

⁵⁸ To be completed by PFBs that have certified public internal auditors on their staff.

⁵⁹ To be completed by PFBs what have an internal audit unit in place.

methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	
3.53. If NO, state the reason:	
3.54. Was an external performance review carried out in the PFB in the last five years in accordance with Art. 19(3) of the Rulebook on common criteria for the implementation of and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Recommendations from the Consolidated Annual Report for the previous year⁶⁰	
3.55. Are you acquainted with the content of the recommendations made to public funds beneficiaries in the Consolidated Annual Report for the previous year (pp. 71–73)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.59. Are you implementing the recommendations provided in the internal audit field in the Consolidated Annual Report for the previous year that concern your organization?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.60. If NO, state the reason:	
Overview of audits and consulting services performed	
An overview of audits and consulting services performed should be presented in the SPECIAL SECTION	
4. PROPOSALS FOR INTERNAL AUDIT DEVELOPMENT	
4.1. Briefly state which activities you planned or implemented for the development of internal audit in your organization:	
4.2. Your proposals for the development and improvement of internal audit (general):	
REMARKS:	
5. Internal audit opinion on the status of financial management and control in the PFB	
5.1. State the internal audit opinion on the level of financial management and control in the reporting period based on audits performed (enter up to three key findings):	
6. FUNCTIONING OF THE SYSTEM IN CONDITIONS OF THE COVID-19 PANDEMIC	

⁶⁰ The text of the Consolidated Annual Report for 2020 is available on the following website: <https://mfin.gov.rs/o-ministarstvu/dokumenti3>

6.1. Please check the statements that generally apply to the internal audit activity in the conditions of the COVID-19 pandemic:

- 1) The objectives were not fully attained.
- 2) The objectives were not attained in the planned time frame.
- 3) The workload increased.
- 4) The level of internal control was reduced.
- 5) We adjusted our work plans to the situation.
- 6) None of the above.

6.2. Additional remarks concerning the functioning of your system in conditions of the COVID-19 pandemic:

Address of the public funds beneficiary:

_____ _____ (signature of the head of the internal audit/internal auditor)	_____ (signature of the manager of the public funds beneficiary and stamp)
--	---

SPECIAL SECTION

1. OVERVIEW OF AUDITS PERFORMED⁶¹								
State all audits performed in the reporting period along with the number of recommendations by type of recommendation and basic recommendations for each audit.								
Audit number date and name:								
Number of recommendations by type of recommendation ⁶² :								
1	2	3	4	5	6	7	8	Total
Recommendations: ⁶³								
Audit number date and name:								
Number of recommendations by type of recommendation								
1	2	3	4	5	6	7	8	Total
Recommendations:								
Audit number, date, and name:								
Number of recommendations by type of recommendation:								
1	2	3	4	5	6	7	8	Total
Recommendations:								

⁶¹ Table 2 can be copy-pasted, as needed, to include all audits performed.

⁶² Enter the number of recommendations by type of recommendation (areas): **1- Internal rules and procedures; 2 – Planning; 3 – Income and revenues; 4 – Public procurements and contracts; 5 – Payroll; 6 – Payments and transfer of funds; 7 – Accounting and financial reporting; 8 – Information systems.**

⁶³ Recommendations from the audit summary report.

2. OVERVIEW OF AUDITS PERFORMED (the table can be copied)

List all audits performed in the reporting period along with the number of recommendations by type of recommendation and key recommendations for each audit.

Audit number date and name:

Number of recommendations by type of recommendation:

1	2	3	4	5	6	7	8	Total

Recommendations:

Audit number date and name:

Number of recommendations by type of recommendation

1	2	3	4	5	6	7	8	Total

Recommendations:

Audit number date and name:

Number of recommendations by type of recommendation:

1	2	3	4	5	6	7	8	Total

Recommendations:

3. OVERVIEW OF CONSULTING SERVICES PROVIDED ⁶⁴

List all consulting services provided in the reporting period, with a brief description from the report on consulting services.

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

⁶⁴ New rows can be added to Table 4 according to the needed, i.e., number of consulting services performed.

4. OVERVIEW OF CONSULTING SERVICES PROVIDED (table can be duplicated)

List all consulting services provided in the reporting period, with a brief description from the report on consulting services.

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

Number, date, and title of the report on consulting services:

Brief description from the consulting services report:

5. LIST OF INTERNAL AUDIT STAFF (new table cells can be added if necessary)⁶⁵				
No.	Name	Surname	Job title	Number of certificates of certified public sector internal auditors
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				

⁶⁵ Add new rows to Table 5 according to needs, i.e., the number of internal audit employees.

Annex 5. Statement on Internal Control

Name of public funds beneficiary

Annex 1a

Statement on Internal Control for *year*⁶⁶

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *year* of *name of PFB*, as well as internal audit report, report of the State Audit Institution, external audit report⁶⁷ for *year* and other available information

I, *name and surname, title of Head of PFB*

hereby declare that I have acquired reasonable assurances of the level of compliance of the financial management and control system with international internal control standards, that the internal control system is efficient and effective, and that the organization is managed according to sound financial management principles.

In *city*,
date

(signature of the manager
of the public funds beneficiary)

name and surname of Head of PFB
title of Head of PFB

⁶⁶ Internal Control Statement form submitted in case no weaknesses were identified in the internal control system.

⁶⁷ If the audits concern the reporting period.

Statement on Internal Control for *year*⁶⁸

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *year* of *name of PFB*, as well as internal audit report, report of the State Audit Institution, external audit report⁶⁹ for *year* and other available information

I, *name and surname, title of Head of PFB*

hereby declare that I have acquired reasonable assurances of the level of compliance of the financial management and control system with international internal control standards, and that some weaknesses⁷⁰ were identified in the internal control system that will be eliminated as soon as possible.

I declare that, despite the identified weaknesses, the internal control system is effective and efficient, and that the organization is managed in accordance with the principles of legality, regularity and sound financial management.

In *city*,
date

(signature of the manager
of the public funds beneficiary)

name and surname of Head of PFB
title of Head of PFB

⁶⁸ Internal Control Statement form submitted in case of weaknesses identified in the internal control system

⁶⁹ If the audits concern the reporting period.

⁷⁰ Scores from the Internal Control Self-Assessment Questionnaire that you are not satisfied with, weaknesses pointed out by audits or observed in the organization itself, etc.

Annex 6. Recommendations from the EC Serbia Report 2021

The CHU regularly monitors the implementation of recommendations made by the EC in the frame of the process of accession in the context of Chapter 32 – Financial control. The most important recommendations for 2021 are as follows:

Recommendation 1	Ensure high-level political support
Status	Implemented
Follow-up	The CAR is adopted by the Government, following a review by the relevant Government committees. The Government's decision adopting the CAR contains a summary of the most important recommendations that are submitted to the key PFBs for implementation.
Recommendation 2	Ensure full coherence of PIFC legal basis with the horizontal legal framework
Status	Implementation is scheduled to begin.
Follow-up	An activity is planned under the PFM Programme 2021–2025 which will result in an analysis of the alignment of the PIFC regulations with other horizontal regulations.
Recommendation 3	Start implementing external peer reviews of internal audit arrangements within public funds beneficiaries
Status	Under implementation
Follow-up	<p>The basic methodology for the external review of quality of IA was improved with the support of GIZ, according to the peer review methodology and the review was piloted in the Ministry of Finance and the EMS. The report on the external peer review was submitted to the internal audit departments of the EMS and the Ministry of Finance. Previously, a working version was prepared of the draft Rulebook on the oversight of IA work. The first group of internal auditors was trained to perform external reviews under the aforementioned pilot, and the initial material for the training of future assessors was also prepared. This activity is directly aimed at complying with internationally accepted IA standards, which implies that each IA unit is evaluated externally at least once every five years to verify that it is functioning in accordance with standards.</p> <p>The adoption and implementation of the Rulebook that is intended to regulate the IA activity oversight is directly related to the provision of a sustainable model of financing the peer review, as well as remuneration for the work of the internal auditors performing this type of review.</p>
Recommendation 4	Improve the use of the CHU annual report as a tool to improve PIFC and ensure its timely publication
Status	Under implementation, continuous
Follow-up	All the most important categories of PFBs in accordance with the list of PFBs of the Treasury Administration are included in the analysis of the status of the FMC and IA carried out by the CHU, which also identifies weaknesses, and provides recommendations for the establishment and improvement of the FMC system and IA activities at PFBs. Please refer to the response related to the recommendation for the Government (Recommendation 1).

	The report is complex, detailed and based on advanced on extensive analyses. Its current appearance is the result of EC recommendations and the work with SIGMA, as well as of continuous improvements made by the CHU. This is the reason why its preparation takes a long time. The introduction of the electronic reporting application resulted in the acceleration of the preliminary data processing and, in parallel, in the further improvement of the analysis. The reporting process could be further accelerated by bringing forward the deadline for submission by the PFBs but this is not feasible due to the financial reporting calendar and the ensuing overlap.
Recommendation 5	Continue the activities related to setting up a comprehensive system for detecting and handling irregularities (repeated recommendation from the EC Report for 2020).
Status	Under implementation
Follow-up	All PFBs are required to fill out a questionnaire as part of the annual report on the status of the FMC system, in the section with questions related to the management of irregularities monitored by the CHU, given that the FMC Rulebook prescribes that Heads of PFB are required to establish a system for detecting, documenting and acting on notifications about suspected irregularities in the PFB and a reporting system, and take action to reduce the risk of irregularities.
Recommendation 6	Address weaknesses in the management of performance and lines of accountability between independent bodies and their parent institutions, as part of existing efforts under the public administration reform framework (repeated recommendation from the 2020 EC Report)
Status	Under implementation
Follow-up	Under Specific Objective 6 of the new PAR Strategy: <i>Accountability and Transparency</i> , two measures are aimed at changing the regulatory and methodological framework as well as supporting implementation. The first one envisages putting in place structural solutions (establishment of structural solutions for managerial accountability in the public administration bodies, which includes activities designed to improve the delegation of responsibilities, clear lines of responsibility between institutions and performance measurement at the institutional level, as well as the establishment of a Register of holders of public office). The second measure is specifically designed to improve performance management (Improvement of the vertical and horizontal system of control and monitoring of public administration work; (Establishment of a mechanism for performance-based management of public administration bodies)). Certain aspects concerning delegation, as well as the further implementation of PFB performance at the central level, will be further processed under the new PAR Strategy's accountability pillar. For detailed information, please refer to Section 3.2.2 Improvement of the Managerial Accountability Concept .
Recommendation 7	Embed managerial accountability in the administrative culture and strengthen the functioning of internal control and internal audit (repeated recommendation from the 2020 EC Report)
Status	Under implementation

Follow-up	Under Specific Objective 6 of the PAR Strategy: <i>Accountability and Transparency</i> two measures are implemented that are aimed at improving managerial accountability. The first one establishes structural solutions, and the second one specifically targets improvement of performance management. An ongoing activity is aimed at changing the regulatory and methodological framework. As a results of this activity an analytical report was prepared with recommendations for improving managerial accountability in Serbia's public administration and supporting implementation. The analytical report covers several aspects of managerial accountability in Serbia, such as delegation of responsibilities and powers, performance management and assessment and organizational culture. Following bilateral meetings, the WG launched the process of creating a road map, with a view to further improving managerial accountability and providing proposals of concrete solutions. The road map is scheduled to be completed by September 2022. An additional measure is intended to improve the work of Analytical Units (internal units for planning documents and support for public policy management), as foreseen in the Programme for the Improvement of Public Policy Management and Regulatory Reform for the 2021–2025 period, (through support for the organizational establishment and improvement of competences, and by formulating a structural approach for data and information base management).
Recommendation 8	Establish an effective internal audit function in all central budget institutions – set up internal audit units and staff them (repeated recommendation from the 2020 EC Report)
Status	Under implementation
Follow-up	At the central government level, the most prominent issue is the lack of auditors in the ministries. The situation with the staffing of IA units at the PFBs is regularly monitored through the annual reports on performed audits and IA activities, and the CAR provides recommendations for the establishment and filling of the capacities of the IAs at the PFBs. In the PFMR Programme for 2021–2025, the CHU has determined the activities that are already in progress and are aimed at developing and implementing an improved certification process for internal auditors and a more efficient IA organization in the public sector. The CHU is also working to systematically improve the status of internal auditors and increase the attractiveness of this profession and the competitiveness of working conditions to promote the profession. Amendments to regulations are envisaged to speed up this process.
Recommendation 9	Improve the timely implementation of internal audit recommendations and continue developing quality assurance (repeated recommendation from the 2020 EC Report)
Status	Under implementation
Monitoring	The managers' awareness of the importance and role of IA is crucial for improving the timely implementation of IA recommendations. The CHU is actively working to raise the knowledge and awareness of managers and employees about the importance of PIFC. The CHU's Guidelines for internal performance reviews of IA units as

	<p>well as the Model for internal performance review of IA were improved and published on the MFIN/CHU website.</p> <p>The CHU also regularly monitors the implementation of the recommendations of the IA at the PFBs through the CAR. In 2021, the number of recommendations increased (6,143), and 53% were implemented. The AP for the New PFMR Programme 2021–2025 includes additional activities that can contribute to the improvement of the rate of implementation of the recommendations:</p> <ul style="list-style-type: none"> - establishment of a unique public sector internal control information system (which should enable the unification of the management and documenting of IA affairs and the documenting and follow-up of the status of the findings and recommendations provided by the IA through the use of software); - the preparation and implementation of training for internal auditors through the Programme for continuous professional development of internal auditors in the public sector; - introduction of external peer reviews – work was done in cooperation with GIZ to improve the methodology for external IA quality reviews according to the peer review method. Until the final transition to peer reviews as a method of external performance assessment, the CHU will continue to perform external reviews of the IA units’ performance according to the existing methodology, as part of its regular day-to-day activities.
Recommendation 10	Ensure the active participation of the Ministry of Finance in activities related to the implementation of managerial accountability so as to have objectives linked to resources (repeated recommendation from the 2020 EC Report)
Status	Implemented, improvements are ongoing
Follow-up	<p>The new generation of planning documents has a clear link with the programme budget. The link with the programme budget is specified in the planning documents for each individual activity, and the costs are estimated for each measure and activity, for each year of implementation. The implementation of this approach has just begun, so there are plans for its further improvement through the implementation of the PFMR Programme and the Programme for Improving Public Policy and Regulatory Reform Management. The Programme for Improving Public Policy and Regulatory Reform Management envisages Specific Objective 2: Strengthening capacities and applying instruments for quality planning and monitoring of the implementation of public policies and regulations with measures 2.1: Organizational establishment of internal units for planning documents and management support (IUPD), and 2.2: Improving the skills of managers and civil servants in the IUPDs for the preparation, monitoring and reporting on the implementation of planning documents and a more effective FMC system, while Target 1 of the PFMR Programme envisages a set of measures and activities aimed at improving this area, mainly through the improvement of medium-term plans. Medium-term plans are one of the most important institutional tools for linking objectives to resources, considering that they contribute to increasing managerial</p>

	<p>accountability (improving performance and ensuring transparency of work), and that they are based on the alignment of the programme budget and related Government policies with the objectives in strategic planning documents. The programme budget requires budget beneficiaries to submit information about their objectives, programmes and activities, on the basis of which the Ministry of Finance decides on the allocation of budget funds and establishes limits for each of the beneficiaries, a system in which the allocation of funds is based on performance, i.e. the outputs of an institution, while at the same time providing answers to the question of what their short-term and long-term goals are and how much it costs to achieve them. In addition, the linking of public policy documents to the programme budget, through medium-term plans, enables the monitoring of implementation costs.</p> <p>Also, in support of the objective to link resources to objectives, the process started of entering data into the Unique Information System (JIS), which is an internal monitoring tool at the technical level.</p> <p>At the level of reform activities, as a member of the Task Force for the Improvement of Managerial Accountability led by the GenSec, the CHU is recognized as an indispensable participant and facilitator for improving managerial accountability in Serbia's administrative culture.</p>
Recommendation 11	Further enhance capacities to implement internal control standards at both central and local government (repeated recommendation from the 2020 EC Report)
Status	Under implementation
Follow-up	<p>Through the annual reports submitted by PFBs the CHU monitors whether PFBs are familiar with and whether they are implementing the recommendations for improving the risk management segment in the organization provided by the CHU in the CAR.</p> <p>As proposed by the CHU and approved by the NAPA, the General Training Programme for civil servants for 2021 incorporated a training on internal control tools and risk management. This training aims to directly contribute to the implementation of both EC recommendations and the recommendations from the CAR.</p> <p>The CHU will continue to implement measures to improve results in the area of risk management at PFBs, under PFMR Programme measure 4.1: Improving the FMC system in public sector institutions, targeted by Activity 4.1.3: Improving risk management at the priority PFBs at the central level, through direct project support. Several risk management-related indicators were determined for the purpose of implementing measures under the new PFMR Programme, specifically, the percentage of priority PFBs⁷¹ that created a risk register, the average scores of the priority group of PFBs that are updating their risk registers (i.e. that carry out a risk assessment and a review the adequacy of measures at least once a year), the average score of the priority group of PFBs⁷² in which managers make decisions to address identified risks (risk</p>

⁷¹ Ministries with constituent administrative bodies, MSIOs, PEs that perform an activity of public interest and operate pursuant to the Law on PEs and cities.

⁷² *Ibid.*

	<p>response: acceptance, avoidance, mitigation or transfer) and the average score of the priority group of PFBs that report risks to the management.</p> <p>Activity 4.1.4 Developing accompanying methodological tools/knowledge products for financial management and control adapted to the specificities of the individual priority groups of indirect PFBs at the central level (selected departments) will also contribute to the improvement of capacities at the central level, while Activity 4.1.5 Support for establishing and improving the FMC system at the local level is envisaged for the local government level.</p>
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Annex 7. Recommendations from the CAR on PIFC for 2020

The recommendations from the PIFC Annual Report are also regularly monitored, as can be seen in the table below. The first nine recommendations relate to the FMC system, and the remaining recommendations to IA.

Recommendation 1	Heads of PFB are key actors in setting up the FMC system under the COSO framework and they need to engage and allocate adequate resources, particularly in terms of staff, time and coordination of the activity, and, with the help of the FMC manual and other methodological guidelines prepared by the CHU, regularly report to reach and demonstrate that COSO standards are applied in their organizations. This recommendation primarily refers to PFBs that are not yet reporting on their FMC system, and which fall into one of the following categories of PFBs: direct beneficiaries of the central budget, local self-government units, and all other PFBs with over 250 employees (redefined recommendations from 2019 and 2020).
Status	Multiannual recommendation, partially implemented
Follow-up	<p>By Decision of the Government, the CAR for 2020 was submitted to all ministries and judicial institutions of the first order for the implementation of recommendations. The implementation of COSO principles is recording continuous progress. In 2021, there was a significant increase in the number of reports submitted relative to all previous reporting cycles. The PFBs successfully submitted their annual reports through the application. The most important institutions continue to report regularly on their FMC systems, but there are exceptions. In 2020 and 2021, the CHU prepared a proposal for changes to regulations that would include penalties in case of non-compliance for the circle of priority PFBs. Letters of notification were sent to the circle of priority PFBs, to remind them of their obligation to submit their annual reports on FMC and IA pursuant to the BSL, and that they can download self-study materials published on the MFIN/CHU website, where user instructions for submitting reports online are also available for download.</p> <p>The highest rate of compliance with FMC guidelines was recorded in the MSIO group, followed by PEs and ministries with constituent administrative bodies. Indirect budget beneficiaries, both central and local level, are the PFB group that stated in their annual reports that they have the lowest rate of implementation of the CHU guidelines. Of all the CHU methodological materials, the Risk Management Guidelines and the FMC Guidelines for small PFBs for the establishment of FMC were reportedly the most used, by all PFBs, while the Guidelines on the Delegation System were the least used.</p> <p>The largest share of PFBs that stated they were not using any of the available methodological materials for the establishment of FMC is from the group of users of NHIF funds, and IBBs at local level.</p>
Recommendation 2	The PFBs concerned should comply with their statutory annual reporting obligation
Status	Partially implemented
Follow-up	The BSL stipulates the obligation of all PFBs to submit their annual reports on the state of the FMC system. A share of PFBs that falls in the group of important PFBs, especially when taking into account their annual revenues

	<p>and expenditures and the status and size of the organizations, failed to submit their annual reports for 2020.</p> <ul style="list-style-type: none"> - Once again, the PE Kopaonik National Park, Nature Park Mokra Gora d.o.o. and PE Šar Planina National Park, as well as the cities of Loznica and Prokuplje failed to submit their annual reports for the year 2021. - The PE Institute for Textbooks, the Uvac Nature Reserve d.o.o. and the city of Kraljevo fulfilled their statutory obligation and submitted their annual reports.
Recommendation 3	The most important PFBs should lead by example, demonstrating the positive effects and value created by internal controls, by raising awareness about the expansion and adoption of the FMC system in PFBs within their remit
Status	Multiannual recommendation, continuous implementation
Follow-up	<p>The improvement of the cooperation between DBBs and IBBs will be implemented according to the PFMR Programme 2021–2025, as part of measure 4.1: Improvement of the FMC system in public sector institutions, through two related activities:</p> <ul style="list-style-type: none"> - 4.1.4 Development of practical methodological financial management and control tools/knowledge products adapted to the specificities of certain important groups of indirect PFBs at the central level, as support to ministries for the public funds beneficiaries within their remit (several selected departments at the central level, including health institutions); - 4.1.5 Support for the establishment and improvement of the FMC system at the local level where selected LSGs and their indirect beneficiaries participate. <p>Part of the activities involving the Ministry of Education, Science and Technological Development and schools within the RELOF 2 project started in the second quarter of 2021.</p> <p>In addition, plans were prepared to test the inclusion of a wider range of LSGs for budget beneficiaries within their remit, under the RELOF 2 project, through the Local Self-Government Reform Programme 2021–2025, as part of Measure 2.4 – Intensify development of the public internal financial control (PIFC) system at the local level and activity 2.4.1 Support the establishment/improvement of an adequate FMC system in 8 indirect budget beneficiaries from 3 LSGs (envisaging training, direct on-site technical assistance, mentoring and networking) as part of the establishment of a managerial accountability system at the LSG level.</p> <p>Detailed information on activities envisaged under the 2021–2025 PFMR Programme can be found in the Report on the implementation of the PFMR Programme for 2021 (https://mfin.gov.rs/dokumenti2/program-reforme-upravljanja-javnim-finansijama-pfm).</p>
Recommendation 4	By Decision 05 Number 400-7619/2021-02 of 26 August 2021, the Government ordered that Business Process Maps should be compiled by: Ministry of Justice, Ministry of Internal Affairs, Ministry of Health, Ministry of Rural Welfare, Ministry of Family Welfare and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management, Ministry of Environmental Protection and the Ministry of Foreign Affairs; and the Risk Register by – Ministry of Justice, Ministry of Internal Affairs, Ministry of Labour, Employment, Veteran and Social Affairs, Ministry of Rural Welfare, Ministry of Family Welfare and

	Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, of Science and Technological Development, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Environmental Protection and the Ministry of Foreign Affairs, while a Risk Management Strategy should be adopted by: the Ministry of Justice, the Ministry of Internal Affairs, the Ministry of Rural Welfare, the Ministry of Family Welfare and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Agriculture, Forestry and Water Management, Ministry of Environmental Protection and Ministry of Foreign Affairs.
Status	Partially implemented
Follow-up	Business process maps were developed by the following ministries: Ministry of Justice, Ministry of Health, Ministry of Environmental Protection, while the other ministries mentioned above have yet to develop these maps. The Ministry of Labour, Employment, Veteran and Social Affairs and the Ministry of Environmental Protection prepared risk registers, while the rest of the ministries listed in the Government Decision failed to do so. The risk management strategy was not adopted by the following ministries: Ministry of Internal Affairs, Ministry of Agriculture, Forestry and Water Management, Ministry of Foreign Affairs, Ministry of Human and Minority Rights, Ministry of Family Welfare and Demography and Ministry of Rural Welfare.
Recommendation 5	By Decision of the Government, the following PEs are required to develop Business Process Maps, with the help of the FMC Manual and other methodological guidelines prepared by the CHU: Airports of Serbia d.o.o., Transportgas Srbija d.o.o., PE Fruška Gora National Park, PE Ponikve Airport, Serbian Railways a.d., PE Stara Planina, PE Mreža Most, PE Rosulje Airport, PE Resavica Coal Mine, State Lottery of Serbia d.o.o., PE Srbijagas, Metohija d.o.o. Belgrade and Golubački Grad Fortress; as well as the Risk Register: Airports of Serbia d.o.o., Transportgas Srbija d.o.o., PE Fruška Gora National Park, PE Ponikve Airport, Serbian Railways a.d., PE Stara Planina, PE Srbijavode, PE Tara National Park, PE Mreža Most, PE Srbijašume, PE Rosulje Airport, State Lottery of Serbia d.o.o., Public Enterprise for Shelters, PE Elektroprivreda Srbije, Golubački Grad Fortress and Srbija Voz a.d.
Status	Partially implemented
Follow-up	The following PEs listed in the Government's Conclusion did not create Business Process Maps in 2021: PE Fruška Gora National Park, Serbian Railways a.d., PE Stara Planina, PE Mreža Most, PE Resavica Coal Mine, State Lottery of Serbia d.o.o., Metohija d.o.o. Belgrade and Golubački Grad Fortress. The following PEs failed to compile a Risk Register: Transportgas Srbija d.o.o., PE Fruška Gora National Park, Serbian Railways a.d., PE Stara Planina, PE Srbijavode, PE Mreža Most, State Lottery of Serbia d.o.o., Public Enterprise for Shelters, PE Elektroprivreda Srbije, Golubački Grad Fortress and Srbija Voz a.d. The Risk Register was not compiled by the following PEs: Transportgas Srbija d.o.o., PE Fruška Gora National Part, Serbian Railways a.d., PE Stara Planina, PE Srbijavode, PE Mreža Most, State Lottery of Serbia d.o.o., Public Enterprise for Shelters, PE Elektroprivreda Srbije, Golubački Grad Fortress and Srbija Voz a.d.

Recommendation 6	By decision of the Government, the following cities are required to compile Business Process Maps: Bor, Kruševac, Leskovac, Novi Pazar, Smederevo, Valjevo, Kragujevac and Niš; and a Risk Register: Novi Pazar, Smederevo, Zaječar, Valjevo and Niš
Status	Partially implemented
Follow-up	Business Process Maps were not compiled by the following cities: Kruševac, Leskovac, Valjevo. The City of Smederevo did not submit its FMC report yet, so we have no information as to whether they compiled the Business Process Map and Risk Register. Risk Registers are still not in place in the following cities: Novi Pazar, Zaječar, Valjevo and Niš.
Recommendation 7	The PFBs need to invest continuous efforts in improving risk management. To this end, the PFBs should use the guidelines and tools that were prepared and improved over the course of 2018 and 2019. In this sense, PFBs should first adopt a Risk Management Strategy, and subsequently, in the risk management process, create a risk register, update it regularly, and establish control activities to reduce risk to an acceptable level, especially given that this obligation is also provided for in the bylaws governing the FMC system in detail.
Status	Multi-annual recommendation, implemented on a continuous basis
Follow-up	Article 7 of the FMC Rulebook stipulates the obligation of PFBs to adopt a Risk Management Strategy and update it every three years or in the case when the control environment changes significantly. Almost half of PFBs (49.30%), have adopted the risk management strategy, which is a significant progress. MSIOs (100%) and local government bodies and services (76.92%) continue to lead by example. The overall indicators at the central level are poorer than at the local level, which can be explained by the poor results of a large number of indirect beneficiaries of the state budget (primarily schools and social welfare centres, where a higher share of annual reports was received from these beneficiaries). The CHU is constantly investing efforts to improve methodological materials that assist PFBs in establishing and developing the FMC system, and through the submitted annual reports from year to year, the CHU analyses the rate of implementation of these guidelines.
Recommendation 8	PFBs should regularly update their action plans in order to continuously improve their FMC system. Specifically, this means that, aside from the self-assessment questionnaires they send in annually, PFBs should, among other things, identify the FMC system segments that should be improved in the coming period on the basis of their scores.
Status	Multiannual recommendation, implemented on a continuous basis
Follow-up	To set up an FMC system, PFBs are required to adopt an Action Plan for the establishment of the FMC system. In view of the fact that PFBs report to the CHU on whether they have established an Action Plan through their Annual Reports, upon analysing the submitted reports, the CHU concluded that there is room for improving the monitoring of activities and for taking action in cases when PFBs have failed to implement activities from the Action Plan for the FMC system (overall scores 3.91 and 3.35). Also, the Self-Assessment Questionnaire is an excellent tool for each PFB that allows them to establish which part of the FMC system needs their attention and further improvement.

Recommendation 9	All PFBs should use the FMC Manual, and the extensive methodological tools in the field of FMC and managerial accountability prepared and published by the CHU. Methodological guidelines are the best response to the expressed needs for training and knowledge in the field of FMC. Also, CHU employees should provide support to all PFBs in need of help.
Status	Multiannual recommendation, implemented on a continuous basis
Follow-up	Based on an analysis of the submitted Annual Reports, the CHU established that about 72.99% of PFBs at the central level and 78.35% at the local level are using the FMC Manual for establishing the FMC system. The various activities the CHU is implementing, such as promoting PIFC, disseminating information about current events related to the topic of internal controls, providing assistance to PFB in direct communication, providing basic and one-day trainings, preparing methodological materials, and many other activities, are contributing to mobilizing, encouraging and helping the establishment and development of the FMC system and especially to spreading awareness about the importance of internal control systems in the public sector.
Recommendation 10	In accordance with Article 82(1) of the Budget System Law, all PFBs should comply with the prescribed systematization (internal staff establishment plan), the number of staff, and fill the internal auditor positions in accordance with the regulations, risks, complexity of operations and the amount of funds they manage. The possession of a certificate for certified internal auditor in the public sector should not be listed in the internal systematization as a requirement for employment of internal auditor. However, internal auditors must meet the requirements for acquiring this certificate, which are: at least three years of experience in auditing, internal control, financial control or accounting and financial affairs. When auditors are assigned to their job, they will apply for training for certified internal auditors in the public sector. Job descriptions for internal auditors can be downloaded from the MFIN website
Status	Multiannual recommendation, implemented on a continuous basis
Follow-up	The number of systematized and filled positions, by PFB group, is continuously monitored in the CAR. For further details on the follow-up and implementation of this recommendation, please refer to Section 2.2.2 The internal audit function and Annex 3 – Overview of PFBs that established internal audit . In 2021, the number of both systematized and filled positions increased relative to 2020. Certain activities related to this recommendation started in 2021 and continued throughout 2022: documents were prepared with the aim of highlighting the importance of the IA profession as well as of improving the status of internal auditors in the public sector, an analysis was carried out of the number of authorized internal auditors in the public sector, an analysis was prepared to assess the complexity of the IA work in the public sector in the Republic of Serbia, and the necessary preparations were made for the promotion of the IA profession through a campaign (details regarding these activities can be found in Report on the implementation of the Public Finance Management Reform Programme 2021–2025 for 2021 , measure 4.2 under Specific Objective IV – Enhancing the application of internal financial control system

Recommendation 11	The role of PFB management is crucial for the adequate establishment of the internal audit function. Therefore, managers who have not adequately established an internal audit function in their institution should, in addition to filling internal auditor positions, also engage in the adequate implementation of internal audit recommendations, to ensure independence of the internal audit function by preventing auditors from performing other tasks that may become subject to audit, as well as by ensuring unlimited access to documentation and facilitating audit performance, as well as the professional development of internal auditors.
Status	Multiannual recommendation, implemented on a continuous basis
Follow-up	The follow-up of the implementation of this recommendation is continuously carried out through the Annual Reports on internal audits and 3.2.5 Continuous professional development of certified internal auditors detailed information is in Section 2.2 Internal audit , 2.2.5 Status of internal audit recommendations .
Recommendation 12	The heads of internal audit units, which should be made fully functional, should adopt a quality assurance and improvement programme and perform an internal IA performance evaluation in accordance with the existing Model for internal performance reviews of internal audit units recommended by the CHU. The Internal Performance Review Model can be downloaded on the MFIN website
Status	Multi-annual recommendation, implemented on a continuous basis
Follow-up	Follow-up is carried out continuously through the annual reporting process. For detailed information on the implementation of the recommendation, please refer to Section 2.2 Internal audit function of the CAR and the 2.2.7 Internal audit activity .
Recommendation 13	To fulfil the annual IA work plan, achieve efficiency in conducting audit engagements and reduce the number of engagements that are not performed, every PFB should, in addition to strengthening staff capacity, review all individual causes for failure to implement audit engagements and invest efforts to resolve them. The PFB and its IA need to ensure that the annual IA plan is realistic, adequate, and in line with the risk assessment. Deviations are possible as a result of future events or contingencies that have not been and could not have been predicted at the time when the plan was made. All known circumstances, such as regular annual audits, the entry into force of new regulations and similar, as well as the available human resources and their expertise, should be taken into account when planning. The annual IA work plan should be periodically reviewed and, if necessary, corrected, with the obligatory consent and approval of the head of PFB. In addition, to increase the efficiency of IA and ensure that it achieves its purpose and objectives, PFBs should invest efforts to eliminate the identified causes for non-fulfilment of the annual IA work plan. For the purpose of timely control of the implementation of the signed action plan for the implementation of IA recommendations, the submission of progress reports on the implementation of the signed action plan and accepted IA recommendations by the audited entities, within the prescribed deadlines, would have a positive effect.
Status	Multiannual recommendation, implemented on a continuous basis

Follow-up	<p>Follow-up is carried out continuously through the annual reporting process. For detailed information on the implementation of the recommendation, please refer to Section 2.2.4 Overview of performed assurance services and Section 2.2.6 Internal audit consulting services.</p> <p>Significant progress was registered in the implementation of internal audit plans after the first year of the pandemic crisis which had contributed to the drastic decline in the implementation rate of plans in the previous year.</p>
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