



**REPUBLIC OF SERBIA
MINISTRY OF FINANCE
- Department for internal control and internal audit -**

**CONSOLIDATED ANNUAL REPORT
ON THE STATUS OF PUBLIC INTERNAL FINANCIAL CONTROL
IN THE REPUBLIC OF SERBIA IN 2017**

Belgrade, July 2018

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EXECUTIVE SUMMARY

Through the adoption of the Strategy for Development of Public Internal Financial Control in the Republic of Serbia for the Period 2017-2020 (PIFC Strategy), the Government has provided strong support to the introduction and strengthening of the public internal financial control system. It is vital to highlight that the PIFC Strategy relates to Public Finance Management Reform Program for 2016-2020, which articulates the Government's unequivocal commitment to implementing a comprehensive set of coordinated and sequenced reforms in the broad field of the PFM which are aimed at increasing accountability and ensuring sound financial management and good governance by improving the efficiency and effectiveness in managing public resources in the Republic of Serbia. PIFC Strategy prescribes that reporting to the Government on implemented activities, achieved results and possible challenges in realisation of objectives and measures is done by means of Consolidated annual report.

Regarding the financial management and control system, as the first of three pillars of PIFC, the analysis has shown that significant progress was achieved in 2017 compared to the previous period. The number of submitted reports on the FMC system has increased by 23%, and the number of duly submitted reports by 18%, all of which suggests that the public fund beneficiaries are now better informed and demonstrate better understanding of internal control systems. Furthermore, the average result of key elements in the process of establishment and development of this system for the entire public sector rose by 1%, as a result of progress achieved at the central level, by 2%. Comparison of elements of COSO framework with the requirements of International Internal Control Standards reveals significant qualitative development in the internal control area by 10%, which is the result of progress achieved at both the central and local levels.

The area of internal audit also records positive results. At the level of public sector as a whole, the constant rise is visible in the number of established internal audit units and the number of internal auditors, which is essential for the development of decentralised internal audit function. In the reporting period, the exam for certified internal auditor in public sector was passed by 48 candidates, so by the end of 2017, a total of 377 internal auditors were certified. Regarding the area of continuous professional development, the focus was on organising the training courses which addressed the latest changes in international internal audit standards. The gradual increase in the percentage (nearly 22%) of recommendations issued in specific areas characteristic for individual public fund beneficiaries proves that the focus of internal audit work has shifted from the support processes to the core business processes in the organisation, that is, the assessment of overall internal control system in place within the organisation is reaching its real purpose. This kind of approach further supports the managerial accountability principle which applies to all the managers across the organisation.

The progress achieved in the area of PIFC primarily proves that the awareness was raised across the public sector of the role and importance of internal control systems, which is the achievement significantly contributed to by the activities and changes that the CHU introduced during the previous period, such as: enhancing professional capacities; higher level of engagement of CHU staff on the tasks of methodological guidance, analysis and monitoring of PIFC implementation and reviewing its quality; improved web site (updating of existing documents, uploading four FMC training modules, publication of a new model of IA Charter, more up-to-date and

comprehensive information on latest activities, better user-friendly experience and availability of content, etc.), introduction of e-learning platform which should enable more efficient obtaining of information and education of users; updating of the self-assessment questionnaire and improved format and content of the Consolidated annual report, with the assistance of SIGMA consultants and Twinning project, in order to ensure a more comprehensive and insightful overview of the PIFC system; development of software for reporting on PIFC system, with a successful testing phase conducted for around 200 PFBs; organising a number of workshops, basic and specialised training sessions for managers; redesigning of training material; organising conferences and dissemination of promotional material, etc.

The implementation of recommendations contained in this report should help the Republic of Serbia to successfully overcome all the impediments which may stand on its way towards a comprehensive reform of internal control systems and management of public funds, through the implementation of international standards and best EU practices, all with a view to efficient realisation of requirements for provisional closing of Chapter 32, with the continuous cooperation of all relevant institutions and alignment of policy documents which is necessary throughout the process.

I INTRODUCTION

1. Purpose and objective

Consolidated Annual Report on the Status of Public Internal Financial Control in the Republic of Serbia in 2017 (hereinafter referred to as: the Consolidated Annual Report) was prepared based on individual annual reports of public fund beneficiaries on the appropriateness and functioning of financial management and control and internal audit work in the course of 2017.

The purpose of the report is to disclose the information gathered about the activities implemented and achieved results by public fund beneficiaries in the process of introduction, development and strengthening of the financial management and control system and internal audit function, and the objective of the report is to highlight both the strengths and weaknesses of the system, but also to provide recommendations for its further development and improvement.

2. Legal basis

Article 83 of the Budget System Law („Official Gazette of the Republic of Serbia”, no.: 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corrig., 108/13, 142/14, 68/15-other law, 103/15, 99/16 and 113/2017), prescribes that the Central Harmonisation Unit in the framework of the Ministry of Finance (hereinafter referred to as: the CHU) consolidates individual annual reports of public fund beneficiaries on the status of financial management and control and internal audit and that the minister of finance submits the consolidated annual report to the Government.

The Government has provided strong support to the introduction and strengthening of the system of public internal financial control by the adoption of the Strategy for Development of Public Internal Financial Control in the Republic of Serbia for the Period 2017-2020¹ („Official Gazette of the Republic of Serbia”, no. 51/17 – hereinafter referred to as: the PIFC Strategy).

PIFC Strategy relates to Public Finance Management Reform Program for 2016-2020 and constitutes a pivotal topic within pillar IV – effective financial control.

PFM Reform Program for 2016-2020 articulates the Government’s unequivocal commitment to implementing a comprehensive set of coordinated and sequenced reforms in the broad field of the PFM which are aimed at increasing accountability and ensuring sound financial management and good governance by improving the efficiency and effectiveness in managing public resources in the Republic of Serbia.

¹http://ifkj.mfin.gov.rs/user_data/posts/Stategija%20razvoja%20interne%20finansijske%20kontrolle%20u%20javnom%20sektoru%20Republike%20Srbije%20za%20period%202017-2020%20srb.pdf

3. Mode and methodology for the preparation of the Consolidated Annual Report

The mode of preparation of the Consolidated Annual Report is prescribed by the Budget System Law and accompanying by-laws.

Article 81 of the Budget System Law envisages that the head of a public fund beneficiary is to inform the minister of finance no later than 31 March of the current year for the preceding year about the appropriateness and functioning of the financial management and control system (hereinafter referred to as: FMC), while Article 13 of the Rulebook on common criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector („Official Gazette of the Republic of Serbia”, no.: 99/11 and 106/13 – hereinafter referred to as: the FMC Rulebook), specifies that reporting is carried out by providing answers to the questionnaire prepared by the CHU.

With respect to internal audit, Article 82 of the Budget System Law lays down that the head of a public fund beneficiary is obliged to inform the minister of finance no later than 31 March of the current year for the preceding year about the functioning of the internal audit system (hereinafter referred to as: IA). Also, Article 32 of the Rulebook on common criteria for organisation and standards and methodological instructions for internal audit acting and reporting in the public sector („Official Gazette of the Republic of Serbia”, no.: 99/11 and 106/13 – hereinafter referred to as: the IA Rulebook), specifies in more detail that the head of internal audit is to prepare the annual report on the internal audit work by using the questionnaire prepared and published by the CHU on the Ministry of Finance web site. Therefore, the head of internal audit submits the annual report to the head of the public fund beneficiary no later than 15 March of the current year for the preceding year, while the head of the public fund beneficiary submits this report to the CHU no later than 31 March of the current year for the preceding year.

In line with the provisions referred to above, the CHU developed the questionnaire forms for the preparation of annual reports of public fund beneficiaries on the FMC system and conducted audits and internal audit activities in the course of 2017, all of which were published on the Ministry of Finance, CHU web site (www.ifkj.mfin.gov.rs). The questionnaire forms were developed based on the model questionnaire used in the EU member states for these purposes. Compared to the previous year, the questionnaires for 2017 have undergone significant changes aiming to provide a more comprehensive and insightful overview of the status and the development of internal controls in the RS. The questionnaire was amended to include additional 25 questions and some of the existing questions were reformulated. While working on the improvement of the questionnaire as the basis for the overall system of reporting on internal control system, the CHU had intensive cooperation with SIGMA experts whose comments and suggestions were largely accepted. Further cooperation is envisaged so that the level of achievement of overall EC requirements in the area of PIFC could be better presented through the Consolidated Annual Report.

Similarly to the previous years, all duly prepared and timely submitted reports of public fund beneficiaries have been included in the Consolidated Annual Report, whereas incomplete, unfilled and untimely submitted reports have not been subject to further analysis.

The categories of public fund beneficiaries were designated in line with the Budget System Law, the List of public fund beneficiaries in RS published by the Treasury Administration, and in line with the requirements referred to in Chapter 32 – Financial control, stating that in the area of public internal financial control, Serbia needs to implement the legislation, underlying policies and ensure sufficient administrative capacities at the central and local level, in social insurance funds and state-owned enterprises. The categories of public fund beneficiaries have been classified in the manner referred to in Table 1.

Table 1

Classification of public fund beneficiaries per categories		
Central/ Republic level	Ministries	Ministries of RS
	Mandatory Social Insurance Organisations (MSIO)	Republic pension and disability insurance fund, Republic health insurance fund and National employment service
	Other direct budget beneficiaries	Administrations, agencies, funds, judicial bodies...
	Public fund beneficiaries founded by RS	Public enterprises, companies, limited liability companies, joint-stock companies, institutions founded by RS
Local level	Direct budget beneficiaries	Local self-government bodies and services
	Public fund beneficiaries founded by local self-government	Public enterprises, public utility companies, companies, limited liability companies, joint-stock companies, agencies, funds and institutions founded by local self-government
Indirect budget beneficiaries		Indirect budget beneficiaries at the central and local level

All indicators for 2017 have been presented following the specified categories. The comparative overview includes the years 2015, 2016 and 2017 predominantly for the central level, considering that the uniform work methodology was applied for these three years. The Consolidated 2017 Annual Report was prepared by the Department for internal control and internal audit within the Ministry of Finance, which performs the CHU activities, on the basis of individual annual reports submitted by public fund beneficiaries.

II. PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

The Budget System Law defines the public internal financial control (hereinafter referred to as: PIFC) as a comprehensive system of measures for management and control of public revenues, expenditures, assets and liabilities established by the Government through public sector organisations in order to ensure that the management and control of public funds, including foreign funds, comply with the regulations, budget and principles of sound financial management, that is, the principles of economy, efficiency, effectiveness and openness.

PIFC system is primarily based upon the managerial accountability, defined by the Budget System Law as the obligation of managers at all levels in public fund beneficiaries to perform all operating activities in a lawful manner, by adhering to the principles of economy, effectiveness, efficiency and openness to public, and to be accountable for their decisions, actions and results to the person or authority who appointed them or delegated such responsibility upon them.

PIFC system consists of the following interrelated areas:

- financial management and control in public fund beneficiaries;
- internal audit in public fund beneficiaries;
- harmonisation and coordination of financial management and control and internal audit performed by the Ministry of Finance – the CHU.

1. FINANCIAL MANAGEMENT AND CONTROL

1.1. Concept and definition

The Budget System Law and FMC Rulebook define financial management and control as a system of policies, procedures and activities established, maintained and regularly updated by the head of the organisation, which on the grounds of risk management provides reasonable assurance that the organisation's objectives will be achieved in a lawful, economical, efficient and effective manner by:

- 1) operating in line with the regulations, internal by-laws and contracts;
- 2) completeness, reality and integrity of financial and business reports;
- 3) economical, efficient and effective utilisation of assets;
- 4) safeguarding of assets and data (information).

FMC system includes, in accordance with the above regulations, the following interrelated elements, defined in line with the international standards of internal control:

- 1) control environment;
- 2) risk management;
- 3) control activities;
- 4) information and communication;
- 5) monitoring, supervision and evaluation of the system.

The FMC system is based upon the managerial accountability of managers at all levels, whereby the head of a public fund beneficiary is responsible for the implementation and proper functioning of the FMC system within the organisation under his/her management. Therefore, this system assists managers in performing their daily tasks and supports the organisation in achieving its objectives by conducting the operating activities which are lawful, economical, efficient, effective and transparent.

1.2. Legal framework and international standards

In addition to the Budget System Law and the FMC Rulebook, other regulations relevant for the introduction of the FMC system are as follows:

- The Law on Civil Servants („Official Gazette of the Republic of Serbia“, no. 79/05, 81/05 – corrig., 83/05 – corrig., 64/07, 67/07 – corrig., 116/08, 104/09, 99/14 and 94/17);
- The Labour Law („Official Gazette of the Republic of Serbia“, no. 24/05, 61/05, 54/09, 32/13, 75/14, 13/17-decision of Constitutional Court and 113/17);
- Public Procurement Law („Official Gazette of the Republic of Serbia ”, no. 124/12, 14/15 and 68/15);
- The Law on Salaries of Civil Servants and Employees („Official Gazette of the Republic of Serbia”, no. 62/06, 63/06-corrig., 115/06-corrig., 101/07, 99/10, 108/13 and 99/14);
- The Law on Salaries in State Bodies and Public Services („Official Gazette of the Republic of Serbia”, no. 34/01, 62/06-other law, 63/06-corrig. of other law, 116/08-other law, 92/11, 99/11-other law, 10/13, 55/13, 99/14 and 21/16-other law);
- The Law on Public Enterprises („Official Gazette of the Republic of Serbia ”, no. 15/16);
- Regulation on the reimbursement of costs and termination benefits for civil servants and employees („Official Gazette of the Republic of Serbia ”, no. 98/07-consolidated text, 84/14 and 84/15);
- Regulation on budget accounting („Official Gazette of the Republic of Serbia”, no. 125/03 and 12/06);
- Rulebook on common bases, criteria and tasks of financial department in direct budget beneficiaries („Official Gazette of the Republic of Serbia”, no. 123/03);
- Rulebook on the standard classification framework and the Chart of Accounts for the budget system („Official Gazette of the Republic of Serbia“, no. 16/16, 49/16, 107/16, 46/17, 114/17, 20/18 and 36/18);
- Rulebook on the mode of preparation, draw-up and submission of financial statements of public fund beneficiaries, beneficiaries of funds of mandatory social insurance organisations and budget funds („Official Gazette of the Republic of Serbia”, no. 18/15);
- Rulebook on the mode of utilization of funds from sub-accounts and other accounts from the consolidated republic treasury account, and on the mode of reporting on investment of funds of budget beneficiaries and beneficiaries of mandatory social insurance organisations („Official Gazette of the Republic of Serbia”, no. 3/04, 140/04, 1/06 and 111/09).

The existing legal framework in the Republic of Serbia provides for application of a majority of international internal control standards. FMC Rulebook prescribes that the elements of the

financial management and control system are defined in accordance with the international internal control standards, in relation to standards harmonised with the Guidelines for Internal Control Standards for the Public Sector, developed by International Organisation of Supreme Audit Institutions (INTOSAI).

1.3. FMC Progress report

The Annual Report on FMC system in public fund beneficiaries was prepared based on the 2017 questionnaire developed by the CHU, which was significantly improved compared to the previous year. As referred to above, the questionnaire now includes additional 25 questions distributed across five elements of COSO framework in order to provide a more detailed overview of the quality of internal controls, and the general part of the questionnaire now has a mandatory field for specific information about the manager in charge of FMC, and the narrative parts are added which should include the planned activities and proposed topics for training in the area of FMC.

Therefore, the format of the annual 2017 report on the FMC system, completed by public fund beneficiaries and subsequently submitted to the CHU, consists of:

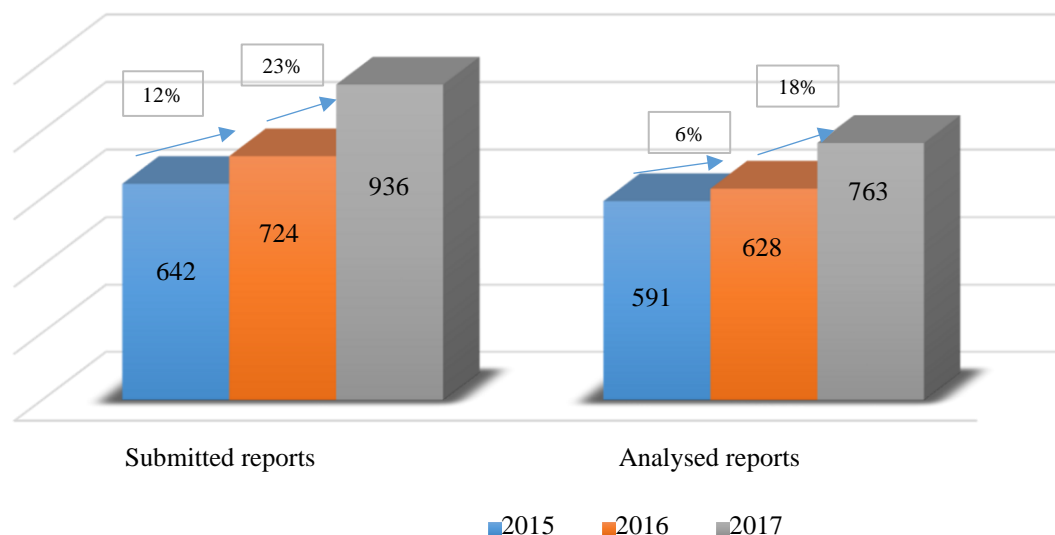
- 1) a general part (general information on the public fund beneficiary, the information on the manager in charge of FMC, the information relating to implementation of FMC system in the organisation);
- 2) a questionnaire for self-assessment of internal controls (a set of specific questions about the functioning of internal controls);
- 3) a section for comments and suggestions by the beneficiaries;
- 4) a section for indicating the planned activities for further development of the FMC system;
- 5) a section for proposing the topics for training in the area of FMC.

The results of the questionnaire provide an assessment of the FMC system at a specific public fund beneficiary for the year covered by the report and constitute a basis for undertaking measures for its improvement.

1.3.1. Submitted reports

For the year 2017, a total of 936 public fund beneficiaries (in tables below referred to as: PFBs) submitted the annual report on the FMC system to the Ministry of Finance - the CHU, which is ***an increase of 23%*** when compared to 2016, when the number of submitted reports was 724. Of all the submitted reports, the consolidated report included a total of 763 duly completed reports, which is ***18% more*** than in the previous year (628), while the remaining reports were either incomplete, unfilled or untimely and as such were not subject to analysis (Graph 1).

Graph 1. Overview of reports on FMC system for 2015, 2016 and 2017



The significant increase both in terms of the number of submitted and processed reports indicates that the awareness was raised across the public sector about the role and importance of internal controls, which is the achievement largely contributed to by the numerous activities of CHU in the previous year, such as: organising basic training courses, organising specialised training courses and workshops for managers, redesigning of training material, improving the CHU web site, organising conferences and distributing the promotional publications, etc.

By analysing the data on the PFBs that attended the CHU training courses in the past two years, including the data on the PFBs that submitted the 2017 report, the conclusion is that **majority of PFBs that attended the training courses (over 90% of PFBs) submitted the duly prepared report**, with a significant number of PFBs that actually conducted the self-assessment and submitted the report for the first time, implying that they have reviewed the actual situation in their respective bodies/organisations and initiated the process of establishing the FMC system in a systematic and comprehensive manner.

However, **the share of irregular reports remains quite high (18%)** in 2017, which is not surprising having in mind the significant increase in the number of beneficiaries that submitted the completed questionnaires for the first time (212). The irregular reports were mostly produced by the so-called “small” beneficiaries (limited budget, small number of employees) at the local self-government level and the categories of indirect budget beneficiaries.

Most common irregularities done by the PFBs when completing the report are as follows: failure to complete the part relating to monitoring, supervision and evaluation due to a lack of core understanding of this segment; filling in the data on the activities conducted in 2017, instead of presenting the status of the FMC system which includes the year covered by the report, all of which had a negative impact on the overall score; lack of understanding and inability to properly identify some of the questions; failure to present the evidence which would support the response

to the question; unintentional failure to respond to some of the questions, as this is the paper-based format of reporting which makes these kinds of mistakes possible.

The overview of analysed reports as per individual categories of public fund beneficiaries, and the explanation behind the defined categories is presented in Table 2.

Table 2

Overview of analysed reports on FMC system per categories of PFBs for 2017		
Categories of PFBs²		Number of reports
Central/Republic level	Ministries	17
	Mandatory soc. insurance organisations	3
	Other direct budget beneficiaries	78
	Public fund beneficiaries founded by RS	38
	Total	136
Local level	Direct budget beneficiaries	142
	Public fund beneficiaries founded by local self-government	152
	Total	294
Indirect budget beneficiaries		333
Total in RS		763

At the central level, the report was submitted by the most relevant beneficiaries: 17 ministries, all three organisations of mandatory social insurance and the major public enterprises and companies founded by RS. At the local self-government level, the complete report was submitted by the autonomous province and 21 cities in RS.

Total expenditures and outflows of all direct budget beneficiaries (ministries, administrations, judicial bodies, budget funds, directorates, offices, agencies, institutes, services...) included in the Consolidated 2017 Annual Report, account for **87% of total expenditures and outflows of the budget of the Republic of Serbia for 2017³**.

² See the explanation on categories of PFBs on page 7, Table 1

³ Republic of Serbia Budget Law for 2017 („Official Gazette of the Republic of Serbia”, no., 99/16 and 113/17)

1.3.2. Establishment of FMC system

Elements of establishment and development of the FMC system

FMC system includes the organisational establishment, implementation and development, while the plan for establishment, implementation and development of the system is prepared by the public fund beneficiary.

The organisational establishment of the FMC system is an initial step in the process and includes the following activities:

- appointment of a manager responsible for FMC;
- setting up a work group to address the introduction and development of the FMC system.

The organisational establishment of the FMC system depends on the size, number of employees and other specificities of a public fund beneficiary. When establishing such system, the first task is to appoint a manager responsible for FMC or set up a work group to address all key issues relating to its introduction and development. Setting up a work group is indispensable for the coordination of all individual activities in all organisational units, for the agreement on different opinions and views concerning the description of business processes, risk identification and management, as well as the establishment of controls. Members of the work group need to be senior managers and persons with expertise and experience in the key areas of operation of the public fund beneficiary, and the persons who are well-acquainted with the operating activities and individual business processes within the organisation. The work group is accountable to the manager for the support to introduction and development of the FMC system.

Further *implementation and development of the FMC system* requires undertaking the following steps:

- drafting of an action plan;
- adopting the risk management strategy;
- formulating the mission, vision and key objectives of a public fund beneficiary;
- listing the main processes (sub-processes) and describing the activities contained therein;
- developing a map of business processes;
- documenting the business processes and drawing-up a flow chart;
- identifying the risks at the level of business processes, risk assessment and ranking, deciding on the response to the risks or establishing the controls (risk management);
- evaluation of internal control elements;
- reviewing the controls in place, taking into consideration the most significant risks;
- making a list of most relevant processes not provided for in a written form;
- analysing the existing and required controls and deciding on necessary prior and subsequent controls;
- adopting the plan for establishing the necessary and elimination of the unnecessary controls;
- monitoring the plan execution;
- drafting the annual report on the establishment of the FMC system.

Assessment of elements relating to establishment of the system

Within *the general part of the questionnaire*, in the section about establishing the FMC system, the beneficiaries are expected to insert the data relating to: appointment of the manager in charge of FMC, setting-up a work group to address the issues of introducing and development of the system, adoption of the action plan, drafting a map of business processes, adoption of the Risk management strategy, defining the key risks, etc. For each positive response, the beneficiaries are obliged to state the source of verification, that is, the document supporting their statement. In case of a negative response, the explanation is required.

Based on the analytical processing of data relating to the establishment of the FMC system, the following results have been identified, as referred to in Table 3 for different categories of PFBs.

Table 3

Parameters		Manager appointed or work group set up		Manager appointed and work group set up		Action plan adopted for establishing FMC system		CHU manual in use for FMC		Map of business processes developed		The most relevant business processes not provided for in written form		Internal controls in place in business processes, taking into consideration the most significant risks	
		No. of PFBs	%	No. of PFBs	%	No. of PFBs	%	No. of PFBs	%	No. of PFBs	%	No. of PFBs	%	No. of PFBs	%
Category of PFBs⁴															
Central/ Republic level	Ministries	16	94	12	71	10	59	16	94	13	76	1	6	15	88
	MSIO*	3	100	3	100	3	100	3	100	3	100	0	0	3	100
	Other direct budget beneficiaries	51	65	35	45	26	33	53	68	44	56	1	1	58	74
	Public fund beneficiaries founded by RS	31	82	21	55	19	50	29	76	20	53	1	3	30	79
	TOTAL	101	74	71	52	58	43	101	74	80	59	3	2	106	78
Local level	Direct budget beneficiaries	114	80	98	69	83	58	94	66	88	62	4	3	101	71
	Public fund beneficiaries founded by local self-government	122	80	116	76	91	60	101	66	84	55	12	8	93	61
	TOTAL	236	80	214	73	174	59	195	66	172	59	16	5	194	66
Indirect budget beneficiaries		133	40	103	31	92	28	106	32	104	31	7	2	185	56
Total in RS		470	62	388	51	324	42	402	53	356	47	26	3	485	64

⁴ See the explanation on categories of PFBs on page 7, Table 1

If we analyse the results of individual elements of establishing the FMC system at the level of RS, we can conclude that ***the lowest result has been recorded in relation to adoption of an action plan*** (42%). The map of business processes was developed by 47% of beneficiaries, while in more than a half of the beneficiaries that have failed to develop the map, the process of listing and describing the business processes is underway (53%). Also, in only 3% of cases the most relevant business processes are not provided for in written form, all of which implies that for the majority of key business processes, the manner of their conduct is regulated through by-laws, internal acts, guidelines, instructions, directives and procedures. With respect to ***establishing the internal controls in business processes, taking into consideration the most significant risks***, the indicator records a significantly better result (64%).

Adoption of ***an action plan*** is the element with ***the lowest result*** recorded in each category: the central level (43%), local level (59%) and indirect budget beneficiaries (28%). On the other hand, similarly to the RS level, ***better results*** were recorded in the area of ***establishing internal controls based on most significant risks*** at the central level (78%) and with indirect budget beneficiaries (56%). At the local level, the best result was recorded in the area of ***organisational establishment of the system***, that is, the appointment of a manager or setting up a work group (80%).

If we observe the categories of beneficiaries in more detail, ***the best results*** with the maximum number of points in all assessed elements were recorded with the beneficiaries from the category of ***mandatory social insurance organisations - MSIO***, which include: Republic Pension and Disability Insurance Fund, Republic Health Insurance Fund and National Employment Service. According to the data submitted, these beneficiaries have entirely realised the key activities in the area of establishing the FMC system, which is a step forward compared to the previous year, when one beneficiary was engaged in the process of developing the map of business processes.

In terms of results achieved, the category of MSIO is immediately followed by the category of ***ministries***, while other beneficiaries at the central/Republic level have recorded generally lower results in the assessed elements compared to the two categories of beneficiaries above.

At the local level, in overall terms, ***slightly better results*** in establishing the FMC system (***by 2%***) were recorded at ***the level of direct budget beneficiaries*** (local self-government bodies and services), compared to other public fund beneficiaries founded by local self-government (public enterprises, public utility companies, companies, limited liability companies, joint-stock companies, agencies, funds and institutions founded by local self-government...), unlike the previous year when the difference in this area was much higher (by 11%). Moving towards a uniform quality of the system within a single category of public fund beneficiaries is certainly a positive development.

Compared to other categories of PFBs, the category of ***indirect budget beneficiaries still display the lowest indicators*** for all the assessed elements, so the last-year recommendations still remain, requiring a more intensive transfer of good practices from higher to lower budget structures.

By comparing the elements of FMC system establishment at the level of RS for the last three assessed years (Table 4), we can conclude the following: the area of organisational establishment of the system, which implies the appointment of the manager in charge of FMC and setting up a work group, is on the constant rise, including the adoption of the action plan and using the FMC Manual provided by the CHU. However, despite *the considerable increase in the area of adoption of the action plan* (by 8% in overall terms), this segment remains the weakest link in the process of establishing the system, identical as during the two previous years. On the other hand, *the sharpest drop* was recorded in the area of *establishing the internal controls in business processes, taking into consideration the most significant risks* (by 6% in overall terms), notwithstanding the fact that this parameter recorded the highest score in 2017, just like in the two previous years.

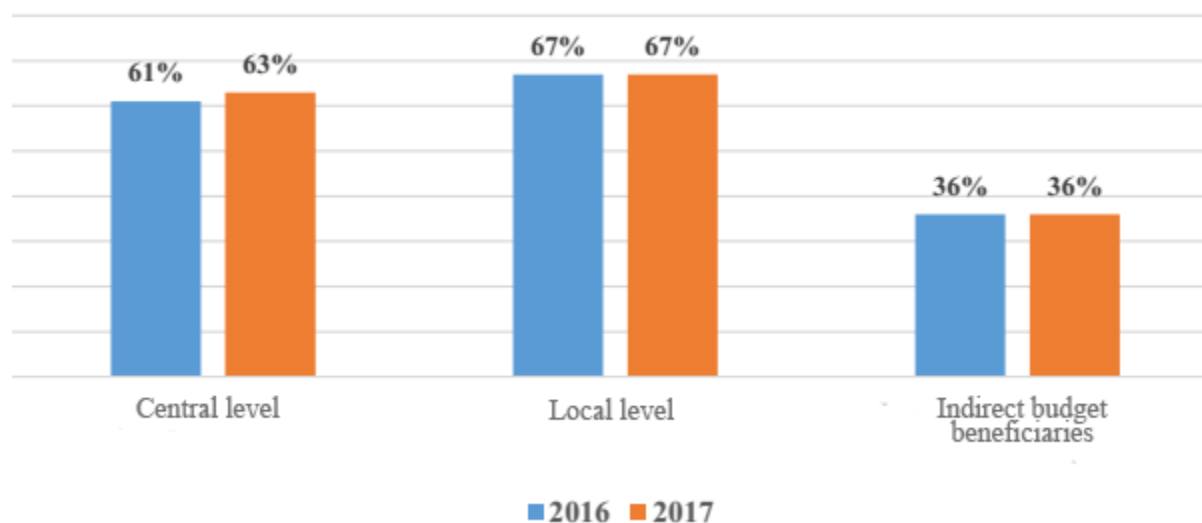
Table 4

Overview of FMC system establishment in RS in 2015, 2016 and 2017						
Elements of system establishment	2015		2016		2017	
	No. of PFBs	%	No. of PFBs	%	No. of PFBs	%
Manager appointed or work group set up	338	57	379	60	470	62
Manager appointed and work group set up	246	42	298	48	388	51
Manager not appointed nor work group set up	253	43	249	40	293	38
Action plan adopted for establishing FMC system	199	34	238	38	324	42
CHU manual in use for FMC	277	47	313	50	402	53
Map of business processes developed	297	50	293	47	356	47
The most relevant business processes not provided for in written form	2	0.3	3	0.5	26	3
Internal controls in place in business processes, taking into consideration the most significant risks	415	70	433	69	485	64
AVERAGE IN RS ⁵	50%		52%		53%	

If we compare 2016 and 2017 in terms of individual categories of public fund beneficiaries, it can be concluded that overall, the local level and the level of indirect budget beneficiaries show no changes, while the *central level has recorded a rise of 2%*, owing to the improvement in ministries, MSIO and PFBs founded by RS. The situation in other direct public fund beneficiaries has not changed compared to the previous year. (Graph 2)

⁵ Updating of the self-assessment questionnaire in 2017 resulted in certain changes in the structure and explanations underlying a number of questions. Consequently, the data for 2015 and 2016 were recalculated to reflect the new methodology and to enable the comparison of the data for all three assessed years.

Graph 2. Overview of FMC system establishment per categories of PFBs for 2016 and 2017



Considering all the assessed elements together, it can be said that in 2017 the level of RS saw a mild improvement in establishing the FMC system, by 1% compared to the previous year, mostly owing to the positive developments achieved at the central level, whereas the situation at the local level and in indirect budget beneficiaries remains unchanged.

1.3.3. Self-assessment – COSO framework⁶

Elements of COSO framework

An integral part of the annual reports submitted by public fund beneficiaries is the self-assessment of the FMC system with a view to evaluating the current status and undertaking measures for its improvement.

Some of the elements being assessed and on the basis of which the status of internal control systems is scrutinised are:

- 1) control environment;
- 2) risk management;
- 3) control activities;
- 4) information and communication;
- 5) monitoring (supervision) and evaluation.

1) Control environment sets the „tone” in the organisation and influences the staff awareness of the controls. It constitutes a basis for all other components of internal control, thus ensuring discipline and structure. Control environment factors include integrity, ethical values and

⁶ The Committee of Sponsoring Organisations (COSO) of the National Commission on Fraudulent Financial Reporting founded in the United States of America.

expertise of employees in the organisation, philosophy and work style of the management, the manner in which the management delegates authority, responsibility, establishes appropriate reporting lines, and organises and promotes the staff.

A part of the questionnaire relating to control environment includes a total of 24 questions and each public fund beneficiary could score a maximum of 120 points. The questions relate to: code of conduct, staff policy, mission and vision of the organisation, strategic objectives, work programmes, training of staff, organisational structure, systematisation of job posts, safeguarding of assets, reporting on risk management, internal control and internal audit, accountability of managers, delegation of authority, etc.

2) Risk management comprises identification, assessment and control over potential events and situations that may have an adverse effect on realisation of a public fund beneficiary's objectives. A prerequisite for risk management is the establishment of general and specific goals that an organisation has to accomplish. The role of risk management is to provide reasonable assurance that the goals will be achieved. In order to manage the risks, the head of a public fund beneficiary needs to adopt the Risk Management Strategy that needs to be updated every three years, and also in the event of a major change in the control environment. Reducing the risk to an acceptable level requires that a public fund beneficiary analyse and update the controls in place at least once a year.

The maximum number of points to be achieved in this segment for 16 questions is 80, and the key questions relate to: defining, measuring and monitoring the realisation of operational goals, linking between strategic and operational goals, linking the risks to key business processes, identification, monitoring and responding to risks, risk management strategy, risk register, reporting on risks, etc.

3) Control activities include written policies and procedures, set forth to provide reasonable assurance that the risks to achieving the objectives have been brought down to an acceptable level, as defined in the risk management procedures, including their application. They are carried out across the organisation, at all levels and functions by all employees, in accordance with the established business process and a job description.

The control activities segment consists of 10 questions, which include: descriptions of business processes, work procedures, linking of work procedures to risks and internal controls, defining of authority, responsibilities and deadlines for individual activities, segregation of duties, updating of procedures and organisational charts, access to data and records, defining of self-assessment procedures and their implementation, etc. The maximum number of points is 50.

4) Information and communication system within an organisation/body should provide key support to the managers at all levels in decision making, both at the strategic and operational levels. Reliable information and effective communication are indispensable for the management and control of operations of a public fund beneficiary, so the review of practical functioning of this segment is vital, including the activities aimed at its development.

The self-assessment questionnaire in the area of information and communication consists of 12 questions, and some of the most relevant are: possibility for monitoring the realisation of goals and implementation of efficient oversight, appropriate staff awareness in their area of competence, informing the management about identified weaknesses in controls by the staff, recording of errors and complaints, data copying for keeping, data recovery, informing the management, IT system support, transparency of information, reporting irregularities, etc. The maximum number of points is 60.

5) *Monitoring (supervision) and evaluation* implies introduction of a system for FMC supervision through assessing the appropriateness and efficiency of its functioning. Monitoring is a review of activities and transactions in an organisation for assessing the quality of operations (performance) over a period of time and effectiveness of controls. Management should focus on monitoring the internal control and achieving the mission of the organisation. In order to ensure effective monitoring, all employees should understand the mission and objectives of the organisation, risk tolerance levels and their own respective duties. Everyone in the organisation is to a certain extent responsible for monitoring. The degree and extent of such responsibility depends on the position of a person in an organisation.

Based on 10 questions in the questionnaire, the beneficiaries assess the following: reporting to the management on the FMC system, reporting which enables impartiality and independence of internal audit, accepting and implementation of recommendations provided by internal and external audit by the head of the PFB, availability of internal and external audit reports to the employees, monitoring the realisation of the action plan for establishing and development of the FMC system, setting-up an audit board, etc. Maximum number of points to be achieved is 50.

Internal control self-assessment questionnaire for 2017 was extended to include additional 25 questions, therefore, the PFBs were obliged to respond to a total of 72 questions on internal controls, potentially scoring a maximum of 360 points. For each positive response, the beneficiaries are required to indicate the relevant evidence (title of the document, reference number, date...) to support the statement, while the negative response requires the relevant explanation.

The developments primarily relate to control environment, that is, the mission and vision of the organisation, strategic objectives and work programmes. Particularly relevant are the newly-introduced questions which describe the state of play in the area of ***managerial accountability***, where the beneficiaries are required to reflect on the degree and quality of accountability of managers at all levels to the person/body that assigned such responsibility upon them, and to state in what way the delegation of authority functions within their respective organisations. Furthermore, for the first time, the beneficiaries were obliged to state whether and to what extent the written procedures have defined the authority, responsibilities, deadlines and control mechanisms for individual activities. Significant changes also apply to the area of monitoring and information within the organisations, with a particular emphasis on reporting to the management.

1.3.4. Assessment of elements of COSO framework

An in-depth overview of the assessment of individual elements of FMC system for 2017, per individual categories of PFBs, is shown in Table 5 below.

Table 5

Assessment of elements of FMC system for 2017, per individual categories of PFBs											
Category of PFBs⁷		Control environment (maximum 120 points)		Risk management (maximum 80 points)		Control activities (maximum 50 points)		Information and communication (maximum 60 points)		Monitoring, supervision and evaluation (maximum 50 points)	
		Points	%	Points	%	Points	%	Points	%	Points	%
Central/ Republic level	Ministries	104	87	66	83	44	87	50	84	39	78
	MSIO	109	91	74	93	47	95	60	100	46	91
	Other direct budget beneficiaries	102	85	62	78	41	82	55	91	33	65
	Public fund beneficiaries founded by RS	108	90	68	85	43	85	55	92	38	76
	AVERAGE	104	87	65	81	42	84	54	90	35	70
Local level	Direct budget beneficiaries	101	84	59	74	38	76	51	85	33	66
	Public fund beneficiaries founded by local self-government	95	79	61	76	37	74	50	84	31	63
	AVERAGE	98	82	60	75	37	75	51	84	32	64
Indirect budget beneficiaries		103	86	60	75	39	77	54	90	29	57
AVERAGE IN RS		101	85	61	76	39	77	53	88	31	62

⁷ See the explanation on categories of PFBs on page 7, Table 1

At the level of RS, the ranking of assessed elements of FMC system is as follows:

1. information and communication (88%)
2. control environment (85%)
3. control activities (77%)
4. risk management (76%)
5. monitoring, supervision and evaluation (62%)

The identical order of assessed elements is visible as well at the level of each individual category of public fund beneficiaries.

The best average results for each assessed parameter have been achieved at the **central/Republic level**, which was also the case in the previous year. However, if we observe the remaining two categories, the significant changes can be seen compared to the previous year, when the category of indirect budget beneficiaries was ranked last in terms of all five elements of COSO framework. The situation at the moment is rather balanced, and may even be concluded that overall, **indirect budget beneficiaries have somewhat better results compared to local self-government** (by 1.6% in average).

Compared to the previous year, the progress in 2017 was achieved at both the local self-government level and at the level of indirect budget beneficiaries, however, the progress of indirect budget beneficiaries is considerably higher.

In its 2016 Consolidated annual report, the CHU highlighted the need for more intensive cooperation between direct and indirect budget beneficiaries aimed at transferring the good practice from higher to lower levels. Additionally, the training courses organised by the CHU were also attended by the representatives of indirect budget beneficiaries, therefore the positive effects of these measures are already visible.

Information and communication (88%) is the **leading area** compared to other assessed areas, followed by **control environment** (85%), while the **weakest** link in the system is **monitoring/supervision and evaluation** (62%), which follows the trend from the previous two years.

Similarly to the assessment of organisational establishment of FMC system, the **best results** were recorded with the beneficiaries from the category **MSIO**, with the highest average scoring compared to all other categories, for all assessed parameters, even for the area of control environment where ministries had the leading position in 2016.

A comparative review of average scores of FMC system elements for 2016 and 2017 at the level of RS, further supports the statement that **all individual elements have recorded an increase in percentage, even in the segment of monitoring and supervision** which recorded a mild decline in 2016, compared to 2015. The single highest increase of 14% has been recorded exactly in the area of monitoring and supervision, which is a particularly significant information, considering the fact that this very segment used to be the weakest link of the FMC system in the previous three-year period (Table 6).

Table 6

Average results of FMC system elements for all PFBs in RS for 2015, 2016 and 2017											
Parameters AVERAGE IN RS	Control environment (maximum 120 points)		Risk management (maximum 80 points)		Control activities (maximum 50 points)		Information and communication (maximum 60 points)		Monitoring, supervision and evaluation (maximum 50 points)		AVERAGE
	Points	%	Points	%	Points	%	Points	%	Points	%	%
YEAR 2015	43	72	38	69	33	66	26	74	17	49	67
YEAR 2016	44	73	41	75	33	67	27	76	17	48	69
YEAR 2017	101	85	61	76	39	77	53	88	31	62	79

Overall, we can conclude that regarding the elements of COSO framework, in 2017 the considerable progress of 10% was recorded when compared to the previous year, and 12% when compared to 2015.

The explanation behind such a positive result may be found in the *following facts*: 1) the PFBs that submitted the reports in the previous years have made significant progress in the implementation of the FMC system, as a result of more thorough knowledge and practical experience, as well as the support provided to them by the CHU through regular and specialised training courses, in particular the ones dedicated to the top management; 2) the PFBs that submitted the report for the first time and were included in the analysis, have actually displayed rather satisfactory results in the implementation of the system, high level of information and high-level awareness of internal controls, which is not surprising as these are mostly the beneficiaries that have attended the CHU training courses in the previous two years; 3) extending the questionnaire with additional questions has contributed to a more comprehensive and insightful overview of the FMC system, that is, to obtaining a more realistic and obviously, a more positive image compared to the previous period.

For the purpose of an in-depth analysis, each of the five FMC elements above can be further broken down into individual questions that the PFBs were obliged to respond to, in order to obtain a more complete picture on the situation in assessed segments. Each response to the question is scored from 1 to 5, whereby score 1 is assigned for the response NO, whereas score 5 is assigned for the requirements which are fulfilled in entirety.

Below are the average scores per individual questions for each of the elements of COSO framework, at the level of RS and individual categories of PFBs for 2017.

Control environment

Table 7 provides an overview of average scores per individual questions on the quality of established control environment.

The highest score at the level of RS was achieved in the area of ***identifying the levels of skills and competencies for each workplace*** (4.85), identical as for the last year. This is followed by the very high score (4.73) on ***detailed description of tasks, responsibilities and authorities for each job post***, which is one of the newly-introduced questions.

On the other hand, the ***lowest*** average score at the level of RS relates, similarly to the previous period, to ***the criteria for establishing HR policy efficiency*** (3.12), recording a slight increase compared to 2016. In terms of the obligation of reporting on risk management, internal control and internal audit within the organisation, the area assessed with a low score 2017, the mild increase was recorded compared to previous year (from 3.0 to 3.27). These two aspects are among the weakest both at the republic and local level and the level of indirect budget beneficiaries, which also follows the trend from the previous year.

Particularly relevant is the analysis of responses to the ***newly-introduced questions***, which provides the overview of key aspects in control environment, such as: mission and vision, strategic objectives, annual work programmes and their link to objectives, updating of organisational structure. In addition to these changes, the analysis of the ***managerial accountability*** aspect is highly relevant, by using the questions on the accountability of managers at all levels for their decisions, actions and results to the one who appointed them or delegated such authority upon them, and the question on the level of hierarchical system of transfer of authority in accordance with the levels of management. In all these segments, the average scores at the level of RS range above the value of 4 out of maximum 5, except for the rules in place which define the potential conflicts of interest and the manner of responding (3.7).

Table 7

1. CONTROL ENVIRONMENT										
QUESTIONS	PFBs	Central/Republic level				Local level			Indirect	Total in RS
	Ministries	MSIO	Other direct budget beneficiaries	Public fund beneficiaries founded by RS	TOTAL	Direct budget beneficiaries	Public fund beneficiaries founded by local self-government	TOTAL		
Is there a code of conduct at the level of institution?	4.53	5.00	4.37	4.53	4.61	4.80	3.66	4.23	4.37	4.40
Is there a procedure in place which ensures that all employees are made familiar with the code of conduct?	3.94	5.00	4.23	4.37	4.39	4.44	3.34	3.89	4.14	4.14
Are all employees required to act in compliance with the code of conduct, i.e., the organisation's code?	4.53	5.00	4.53	4.47	4.63	4.67	3.67	4.17	4.34	4.38
Are the measures undertaken in cases of non-compliance with the code?	4.47	5.00	3.99	4.08	4.38	4.00	3.22	3.61	4.11	4.03
Are there rules in place which define the potential conflicts of interest and the manner of reporting?	4.18	5.00	3.87	3.92	4.24	3.61	3.28	3.44	3.39	3.69
Have you defined the mission and vision of the organisation?	4.00	5.00	4.15	4.82	4.49	3.89	4.66	4.28	4.20	4.32
Have you defined and adopted the strategic goals?	4.35	4.33	4.28	4.61	4.39	4.21	4.57	4.39	3.97	4.25
Have you adopted the annual work programmes?	4.65	5.00	4.59	4.84	4.77	3.96	4.96	4.46	4.61	4.61
Does the annual work programme include the defined goals that the organisation is to achieve during the year?	4.65	4.67	4.53	4.79	4.66	3.93	4.95	4.44	4.51	4.54
Have you adopted an HR policy (strategy)?	4.12	3.00	4.01	3.76	3.72	3.94	3.37	3.65	3.56	3.65
Are there criteria in place for establishing HR policy efficiency?	3.59	3.00	3.45	3.13	3.29	3.29	2.53	2.91	3.15	3.12
Is the HR policy being monitored?	4.59	3.00	4.18	3.95	3.93	3.81	3.51	3.66	3.67	3.75

Are the levels of required skills and competencies for each workplace specified?	4.82	5.00	4.86	4.82	4.87	4.89	4.89	4.89	4.80	4.85
Is there a detailed description of tasks, responsibilities and authorities for each job post?	4.71	4.67	4.77	4.76	4.73	4.85	4.88	4.86	4.60	4.73
Do you conduct an annual training needs analysis for each job post?	4.12	4.67	3.73	3.89	4.10	3.72	3.24	3.48	3.68	3.75
Is the record of training attendance being maintained for each employee?	4.53	5.00	4.12	4.08	4.43	3.83	3.49	3.66	4.08	4.06
Do you analyze the needs for training in financial management and control?	3.88	4.00	3.26	3.34	3.62	3.30	3.04	3.17	2.79	3.19
Have the managers and employees attended training courses in financial management and control?	3.88	4.33	3.24	3.71	3.79	3.69	3.66	3.67	2.58	3.35
Are the managers assured that risk management, internal control and internal audit processes are useful, i.e. contributing significantly to the achievement of goals?	4.65	4.33	4.37	4.47	4.46	4.13	4.18	4.16	3.81	4.14
Is the organisational structure regularly updated to reflect the changes in regulations and organisational goals?	4.35	4.33	4.33	4.47	4.37	4.11	4.09	4.10	4.02	4.16
Are the assets, including intellectual property, protected against unauthorised access and use?	4.65	5.00	4.67	4.50	4.70	4.17	4.22	4.20	4.13	4.34
Is regular reporting on risk management, internal control and internal audit mandatory within the organisation?	4.29	5.00	3.10	3.92	4.08	3.12	3.13	3.13	2.61	3.27
Is there an effective mechanism in place for accountability of managers at all levels for their decisions, actions and results to the one who appointed them or delegated such authority upon them?	4.47	4.67	4.28	4.32	4.43	3.96	3.76	3.86	3.84	4.05
Is there an effective, hierarchical system of transfer of authority, in accordance with the levels of management?	4.59	5.00	4.31	4.45	4.59	3.96	3.76	3.86	3.77	4.07

Risk management

Table 8 provides an overview of average scores per individual questions on risk management.

If we observe risk management at the level of RS, the segment with the ***highest*** score is ***projecting and planning of revenues and expenditures and expenses in compliance with the set goals of the organisation*** (4.71), immediately followed by regular monitoring of achievement of goals (4.59). The highest average scores at the central and local level as well as the level of indirect budget beneficiaries mostly follow the ranking at the level of RS.

Development of a risk register at the entity level (3.01) and ***regular risk updating*** (2.61) have the ***lowest average score*** at the level of RS. These are immediately followed by adoption of the risk management strategy (3.01). Also, the risks of fraud and corruption are not sufficiently present (3.05). These indicators have the lowest score even if we observe separately the individual PFB categories.

Overall, the hierarchy of average scores of some of the risk management aspects mostly follows the last year structure.

Table 8

2. RISK MANAGEMENT										
QUESTIONS	PFBs	Central/Republic level				Local level			Indirect	Total in RS
	Ministries	MSIO	Other direct budget beneficiaries	Public funds beneficiaries founded by RS	TOTAL	Direct budget beneficiaries	Public funds beneficiaries founded by local self-government	TOTAL		
Have the operational goals been defined and adopted?	4.35	5.00	4.51	4.63	4.62	3.96	4.41	4.18	4.00	4.27
Is there a link between strategic and operational goals?	4.06	4.00	4.36	4.55	4.24	3.82	4.10	3.96	3.71	3.97
Do you set goals which are specific, measurable, attainable, realistic and time-bound?	4.65	4.67	4.47	4.63	4.60	4.00	4.36	4.18	4.04	4.27
Are the managers and employees made familiar with the organisation's strategic and operational goals?	4.29	4.67	4.59	4.42	4.49	3.90	4.28	4.09	4.12	4.24
Are revenues and expenditures projected and planned in compliance with the set goals of the organisation?	4.88	5.00	4.76	4.87	4.88	4.56	4.73	4.65	4.61	4.71
Is the achievement of the set goals regularly monitored?	4.94	5.00	4.64	4.76	4.84	4.27	4.66	4.47	4.47	4.59
Are the causes of possible deviations analysed?	4.53	4.67	4.42	4.61	4.56	3.77	4.29	4.03	4.07	4.22
Are identified risks related to key business processes?	4.18	4.67	3.82	4.05	4.18	3.68	3.63	3.66	3.25	3.69
Have the risks been identified in relation to the defined goals of the organisation?	4.24	4.67	3.72	3.79	4.10	3.45	3.50	3.48	3.12	3.57
Have the risks been assessed?	4.00	4.67	3.58	3.79	4.01	3.28	3.30	3.29	2.98	3.43
Are decisions made aimed at resolving the identified risks?	4.18	4.67	3.45	3.89	4.05	3.13	3.26	3.20	3.06	3.43
Has a risk management strategy been adopted?	3.47	5.00	3.01	3.29	3.69	3.80	3.28	3.54	2.65	3.29
Have you created a register of risks for your organisation?	3.88	4.67	2.92	3.32	3.70	2.89	3.03	2.96	2.38	3.01
Do the risks include the risks of fraud and corruption?	3.06	5.00	2.96	3.53	3.64	2.99	2.86	2.92	2.58	3.05

Is the risk register regularly updated, in accordance with the needs of the organisation?	3.59	3.33	2.72	2.84	3.12	2.32	2.47	2.40	2.32	2.61
Is there a system in place for reporting to the head of public fund beneficiary on the most significant risks?	3.88	4.33	3.19	3.53	3.73	2.92	2.70	2.81	2.70	3.08

Control activities

Table 9 provides an in-depth overview of average scores per individual questions relating to assessment of control activities, at the level of RS and at the level of individual categories of public fund beneficiaries.

The right to access the material, financial and other resources allowed only to authorised persons has recorded ***a very high score at the level of RS (4.72)***, as well as the ***segregation of duties*** (4.33), which suggests that it has been largely ensured that the same person may not perform two or more of the following duties: proposing, approving, executing and recording business changes. If we observe separately the central, local and the level of indirect beneficiaries, these questions have also been most positively responded to.

Regarding weak points within the control activity elements, the situation is identical, both at the level of RS and at the level of individual categories of beneficiaries. Therefore, the same as in the last year, the lowest score was recorded in the ***application of procedures for managers monitoring implementation of internal control (self-assessment)***, with an average score of 3.12 at the level of RS, while the descriptions of internal controls contained in the procedures recorded a somewhat more positive score (3.43).

Table 9

3. CONTROL ACTIVITIES										
QUESTIONS	PFBs	Central/Republic level				Local level			Indirect	Total in RS
	Ministries	MSIO	Other direct budget beneficiaries	Public funds beneficiaries founded by RS	TOTAL	Direct budget beneficiaries	Public funds beneficiaries founded by local self-government	TOTAL		
Are the business processes accompanied by detailed descriptions, including documentation flow, steps in decision-making, deadlines for job completion and established control mechanisms?	4.41	5.00	4.26	4.39	4.52	4.10	3.78	3.94	4.18	4.21
Are the work procedures described in detail?	4.41	4.67	4.13	4.37	4.39	3.92	3.82	3.87	4.07	4.11
Do the written procedures consider the risks relating to specific activities?	4.41	4.67	3.72	3.87	4.17	3.52	3.50	3.51	3.65	3.78
Do the procedures contain the descriptions of internal controls?	4.18	4.33	3.49	3.95	3.99	3.26	3.20	3.23	3.08	3.43
Do the written procedures clearly define the responsibilities, authority, deadlines and control mechanisms for individual activities?	4.24	4.33	4.04	4.16	4.19	3.82	3.65	3.73	3.73	3.89
Are the managers and employees aware of the work procedures?	4.59	5.00	4.50	4.61	4.67	4.15	3.98	4.07	4.29	4.34
Is it ensured that the same person cannot perform two or more of the following duties: proposing approving, executing and recording business changes (segregation of duties)?	4.82	5.00	4.81	4.47	4.78	4.23	4.06	4.14	4.08	4.33
Are work procedures and organisational charts regularly updated?	4.41	4.67	4.06	4.37	4.38	3.61	3.70	3.65	3.85	3.96
Is it ensured that only authorised persons are allowed to access the material, financial and other resources (data, records)?	4.76	5.00	4.85	4.84	4.86	4.61	4.30	4.45	4.84	4.72
Are the procedures for managers monitoring the implementation of internal controls (self-assessment) in place and applied?	3.35	4.67	3.03	3.53	3.64	2.94	2.79	2.87	2.85	3.12

Information and communication

Table 10 provides the average scores for responses to the questions within the area of information and communication.

Public fund beneficiaries have recorded the ***highest*** score (4.76) at the level of RS for the ***regular preparation of reports for management (revenues generated, execution of financial and other plans, available funds, liabilities...)***, and immediately followed by ***obtaining information on available funds for the realisation of activities within their scope of competence*** (4.66). These two questions are the newly-introduced questions in the 2017 questionnaire. The situation is similar at the level of individual PFB categories, with the positive results also recorded in transparency of information and enabling the employees to report possible irregularities and problems.

The lowest average score at the level of RS (3.71) was recorded in the area of ***testing*** in practice ***the procedures*** in place for ***copying the data*** in order to save them and procedures of data ***recovery*** in case of loss, and also the ***interrelation of software programmes*** supporting certain business processes (3.73). At the level of individual categories of PFBs, the situation varies, however, one of the weak factors in the system, in addition to the ones referred to above, is establishing the procedure for the staff to keep their managers informed of the control weaknesses identified.

Table 10

4. INFORMATION AND COMMUNICATION											
QUESTIONS	PFBs		Central/Republic level				Local level			Indirect	Total in RS
	Ministries	MSIO	Other direct budget beneficiaries	Public funds beneficiaries founded by RS	TOTAL	Direct budget beneficiaries	Public funds beneficiaries founded by local self-government	TOTAL			
Does the information and communication system enable monitoring of realisation of set goals and implementation of efficient work supervision?	4.59	5.00	4.36	4.29	4.56	3.87	4.02	3.95	4.10	4.20	
Is there an efficient and effective system in place for internal written, electronic and verbal communication, enabling the staff to receive the information necessary for accomplishing their tasks?	4.71	5.00	4.60	4.47	4.70	4.25	4.07	4.16	4.24	4.37	
Is there a procedure in place for the staff to keep their managers informed of the control weaknesses identified?	3.76	5.00	4.05	3.74	4.14	3.50	3.32	3.41	3.72	3.76	
Is there a process for recording errors and complaints in place so that they can be analysed, their reasons established and problems eliminated?	3.53	5.00	4.00	3.92	4.11	3.28	3.66	3.47	3.71	3.77	
Does the information and communication system have adequate procedures for copying data in order to save them and procedures of data recovery in case of loss?	3.88	5.00	4.33	4.45	4.42	3.92	3.88	3.90	3.72	4.01	
Have the above procedures in the information and communication system established in practice been tested?	3.53	5.00	4.14	4.08	4.19	3.57	3.55	3.56	3.38	3.71	
Are reports for management regularly prepared (revenues generated, execution of financial and other plans, available funds, liabilities, receivables...)?	4.82	5.00	4.83	4.84	4.87	4.69	4.66	4.67	4.72	4.76	
Do the managers receive the information on available funds for the realisation of activities within their scope of competence?	4.94	5.00	4.86	4.68	4.87	4.57	4.49	4.53	4.58	4.66	

Are key business processes (finances, procurement, contracting, asset management, monitoring of capital projects, material records, staff, etc.) sufficiently supported by IT systems?	4.29	5.00	4.45	4.26	4.50	4.06	4.08	4.07	4.08	4.22
Are software programmes, supporting certain business processes within the organisations also interrelated?	2.47	5.00	3.92	4.08	3.87	3.84	3.89	3.87	3.45	3.73
Is transparency of information ensured (key documents published on web site, etc.)?	4.88	5.00	4.73	4.79	4.85	4.62	4.53	4.57	4.27	4.56
Are the staff members enabled to report possible irregularities and problems?	4.88	5.00	4.78	4.47	4.78	4.56	4.51	4.54	4.65	4.66

Monitoring, supervision and evaluation

Table 11 provides an overview of average scores per individual questions in the area of monitoring, supervision and evaluation.

Within the area of monitoring and supervision, at the level of RS, the **highest** result was recorded in the segment ***implementation of recommendations provided by external audit*** (4.28). The second best result relates to ***monitoring of implementation of recommendations provided by external and internal auditors for improving the financial management and control system*** (4.10) and ***the availability of external and internal audit reports to the staff working in the areas covered by the reports*** (4.10). Accepting and implementation of internal audit recommendations (3.30) lags behind the external audit. The same ranking is visible in individual categories of PFBs.

Regarding the weakest points in the area of monitoring, supervision and evaluation at the level of RS, the **lowest score** was recorded in the question on ***establishing the Audit Board as an advisory body for issues of internal control*** (1.28), the same as the previous year, and measures undertaken in case of failure to perform the activities referred to in the action plan (2.64). Considering the fact that the weakest score in terms of individual elements in establishing the FMC system is actually the adoption of an action plan, it comes natural to expect that the situation is also dissatisfactory in terms of monitoring the realisation of such an action plan and undertaking measures. Even when observed at the level of individual categories of PFBs, these two weakest segments are the same as at the level of RS.

Table 11

5. MONITORING (SUPERVISION) AND EVALUATION										
QUESTIONS	PFBs	Central/Republic level				Local level			Indirect	Total in RS
	Ministries	MSIO	Other direct budget beneficiaries	Public funds beneficiaries founded by RS	TOTAL	Direct budget beneficiaries	Public funds beneficiaries founded by local self-government	TOTAL		
Is there a monitoring and information system implemented by the management which enables them to be regularly informed on the functioning of the financial management and control system for which they are accountable for?	3.88	5.00	3.40	3.58	3.96	3.08	3.07	3.07	3.13	3.39
Is there a reporting structure enabling objectivity and independence of internal audit?	4.94	5.00	3.54	4.42	4.48	2.94	2.61	2.78	2.49	3.25
Does the manager accept and implement the recommendations of internal audit?	4.71	5.00	3.79	3.89	4.35	3.13	2.51	2.82	2.74	3.30
Are the recommendations of external audit implemented?	5.00	5.00	4.22	4.55	4.69	4.53	4.63	4.58	3.56	4.28
Is the implementation of recommendations issued by external and internal auditors monitored?	4.71	5.00	4.27	4.55	4.63	4.27	4.21	4.24	3.43	4.10
Are the internal and external audit reports available to the staff working in the areas covered by the reports?	4.88	5.00	4.21	4.32	4.60	4.30	4.27	4.29	3.40	4.10
Are there instructions prescribing the actions to be taken and persons to be informed in case of the lack of controls?	3.18	5.00	2.88	3.29	3.59	2.82	2.51	2.67	2.08	2.78
Is the realisation of activities from the action plan for the establishment and development of financial management and control monitored?	3.35	4.67	2.60	2.97	3.40	2.82	2.88	2.85	2.37	2.87
Are any measures undertaken in case of failure to perform the activities referred to in the action plan?	3.06	4.67	2.47	2.76	3.24	2.61	2.41	2.51	2.17	2.64
Have you established an audit board, as an advisory body for the issues of internal control?	1.12	1.33	1.12	2.13	1.42	1.23	1.24	1.23	1.17	1.28

1.3.5. Comments, suggestions and planned activities of PFBs for further development of the FMC system

An integral part of the annual FMC system report is the narrative section, consisting of three segments: 1) comments and suggestions; 2) planned activities for further development of the FMC system; 3) proposed topics for training in the area of FMC.

Within the sections above, the PFBs are able to address these topics and contribute to a more insightful overview of the FMC system by the CHU.

After analysing the narrative part of the questionnaire, the following conclusions were reached:

1. In most PFBs that submitted their comments, the main obstacle for the establishment and continuous development of the FMC system is the *staff problems*, such as:
 - Insufficient number of staff which, being overburdened with their daily activities, lack sufficient time to commit themselves properly to the issue of the FMC system, including the “employment restriction” which is still in force and impedes the proper solution to this issue;
 - Permanent decline in the number of operational staff, as particularly highlighted by the beneficiaries at the level of municipal administration;
 - Frequent changes of management, particularly at senior levels, which undermines the genuine commitment of this key personnel to the issue of internal controls, due to lack of proper information;
 - Frequent changes in the composition of FMC Working groups, which affects the work continuity and calls for repeated training sessions;
 - Fluctuation of high quality and trained staff, most commonly into the private sector, which cannot be offset within a short period of time;
 - Persons with temporary work contracts cannot commit themselves on a sufficiently professional and long-term basis to this issue;
 - Termination of work contract of a person who used to be in charge of FMC or attended the CHU training course.
2. *Lack of understanding of key steps* in organisational establishment of the FMC system, and *the role and importance of the action plan* leads to a lack of organisation and discontinuity in the process;
3. Some PFBs *failed to establish the internal audit*, which makes the establishment of the internal control system more difficult;
4. A lot of managers and employees *consider the FMC system as relating only to financial processes*, which precludes proper and comprehensive establishment of the system;

5. ***Internal controls are not seen as embedded in overall business activities*** of an organisation and an obligation for all employees; rather, the FMC system is perceived as a new and additional activity to be undertaken by a designated person;
6. ***Risks are not defined***, therefore, the management is not engaged in their treatment, and consequently, the internal controls in business processes are not risk-based;
7. There is a considerable ***lack of coordination between direct and indirect budget beneficiaries***, which could be mitigated by organising specialised training courses for indirect budget beneficiaries, in cooperation between the CHU and direct budget beneficiaries;
8. Overall, the need for ***more frequent training sessions was highlighted***, and with respect to needs for specific FMC training courses, the beneficiaries have listed ***the following topics*** in particular: fundamentals of the FMC system, risk management and drafting the risk management strategy, self-assessment and reporting on internal controls, strategic and annual planning, defining risks and performance indicators, managerial accountability;
9. A lot of beneficiaries insisted on being provided with ***as many practical examples as possible***, and particularly with the example of a proper internal control system in practice;
10. Regarding the ***planning of activities for further development of the FMC system***, the beneficiaries mostly listed the following: updating the Risk management strategy, updating the risk register, updating the existing internal acts, adopting the internal act on FMC, appointment of a person in charge of FMC, adopting the action plan, etc.

1.4. Training of persons engaged in FMC

Ministry of Finance – CHU has been continuously organising training courses for managers and other employees responsible for the establishment and development of the FMC system. The purpose of training courses is to make the participants familiar with the main concepts, role and importance of the internal control system, and with all the specific activities that need to be carried out in order for the system to be properly established, maintained and developed. The main goal of these training sessions is improvement of the internal control systems and managerial accountability in practice, for the purpose of efficient achievement of strategic and operational objectives of public fund beneficiaries, by executing all the operations and transactions in a lawful, ethical, economical, efficient, effective and transparent manner.

The programme of basic, five-day training for FMC consists of four areas, including:

- introduction to public internal financial control;
- integrated internal control framework - COSO model;
- risk management system;
- management control system.

In addition to the theoretical part, the training courses also include the practical part (exercises, case studies, tests...), so that the participants could master the methodology of establishment and

development of the FMC system and be entirely equipped to implement the lessons learned within their respective entities/organisations.

In the course of 2017, ***the basic FMC training*** was organised in four rounds and ***included a total of 255 participants*** from public fund beneficiaries.

In order to contribute to comprehensive development of public internal financial control, the CHU continued to conduct the basic training courses at the local level, in the City of Niš and the City of Subotica. A five-day basic training in financial management and control was organised in Niš, for the representatives of the City of Niš and the municipalities Svrljig, Aleksinac, Gadzin Han, Ražanj and Doljevac. A five-day basic training in financial management and control was also organised in Subotica, for the representatives of the City of Subotica and the City of Sombor and the municipalities Kula, Apatin, Mali Idjoš and Bačka Topola. Both training courses were aimed to gather as many participants as possible from Nišava administrative district and North Bačka administrative district.

Senior and mid-level managers, 140 of them in total, attended the one-day training courses, particularly addressing the specific topics, tailor-made to respond to the beneficiaries' requests, such as: managerial accountability, preparing the risk register and the risk management strategy, mapping of business processes, etc. The training courses were held at the following institutions:

- Republic Health Insurance Fund, on the topic of "Fundamentals of financial management and control and the role and accountability of managers for improving the business activity", for 50 participants;
- City municipality Čukarica and the First Basic Court, on the topic of „Fundamentals of financial management and control, drafting the map of business processes, risk management”, for 20 participants;
- Ministry of Health, on the topic of “Risk management, risk assessment and the Risk management strategy”, for 25 participants;
- Republic Geodetic Authority, on the topic of “Establishing the effective financial management and control system, particularly considering the role of top management”, for 20 participants.

2. INTERNAL AUDIT

2.1. Concept and definition

The Budget System Law and IA Rulebook define internal audit as an activity which provides independent objective assurance and consultancy whose purpose is to contribute to improving the operations of an organisation, assist an organisation in achieving its objectives through systematic and disciplined assessment and evaluation of risk management, control and organisation management.

On the basis of objective review of evidence, internal audit provides assurance on the appropriateness and functioning of the risk management processes in place, controls and organisation management, and identifies whether these processes function in a manner set by the management and whether they allow for the attainment of an organisation's objectives.

Internal audit provides consultancy services, including offering advice, guidance, assistance or any other services whose aim is to increase the value and improve the organisation management process, risk management and controls, whereby internal auditors do not assume the managerial responsibility.

Within the PIFC concept laid down by the European Commission, internal audit is perceived as a function performed by an authorised, organisationally and functionally independent internal audit unit, or an internal audit within an organisation. Organisational independence implies that internal audit is independent from the activity being audited, is not part of any business process or organisational unit, and is accountable for its work directly to the head of the organisation. Functional independence implies that internal audit makes decisions independently, on the basis of risk assessment, on the area, method of conducting and reporting on conducted internal audit.

Internal audit performs independent, professional and systematic assessment of management and control systems, which implies the review of all functions and business processes in an organisation.

2.2. Legal basis and international standards

Legal framework that regulates the field of internal audit includes the following:

- The Budget System Law;
- Rulebook on common criteria for organising and standards and methodological instructions for acting and reporting by the internal audit in the public sector (IA Rulebook);
- Rulebook on conditions, manner and procedure for taking an exam and obtaining a title of certified internal auditor in the public sector ("Official Gazette of the Republic of Serbia", no. 9/2014, hereinafter referred to as: the Certification Rulebook);
- International Internal Audit Standards (International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Audits);
- PIFC Strategy.

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

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

- IA Rulebook prescribes the manner in which an IA unit is organised and set up within the public fund beneficiary, the field of work i.e. the tasks to be done, standards and methodology of internal audit as a functionally independent organisational 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 record of candidates who have passed the internal auditor exam.

2.3. Status and organisation

The PIFC Strategy, the Budget System Law and the IA Rulebook prescribe that the Republic of Serbia shall have a decentralised internal audit system in place.

Decentralised internal audit system sets forth an obligation that all public fund beneficiaries have the internal audit function in place. IA Rulebook specifies the criteria for establishing the internal audit function, in a manner that all ministries, autonomous provinces, towns and other public fund beneficiaries with more than 250 employees are obliged to have a separate, functionally independent organisational unit for internal audit in place. 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 fund beneficiaries;
- by concluding an agreement with other public fund beneficiaries on performing the internal audit tasks;
- where there are no conditions for organising an internal audit unit, the tasks of internal audit unit may be discharged by an internal auditor employed at the public fund beneficiary.

2.4. Internal audit units and internal auditors

Public fund beneficiaries have prepared their annual reports on performed audits and internal audit activities on the basis of the template of annual report on performed audits and internal audit activities, prepared and published by the CHU, on the website of the Ministry of Finance. The purpose of annual reports on performed audits and internal audit activities is to collect the information that will enable the CHU to prepare a consolidated report on the status of internal audit in the public sector.

The template of the annual report on performed audits and internal audit activities for 2017 was updated to include additional questions, in line with the amendments in internal audit standards. The template of the annual report on performed audits and internal audit activities consists of a general and a detailed part.

The general part provides general information on the beneficiaries, the IA unit and internal auditors, the information on implemented standards and IA work methodology, as well as proposals for the development of the IA system.

The detailed part provides an overview of performed audits and the number of recommendations categorised into different types, as well as the number of performed consultancy engagements.

For the year 2017, a total of 454 public fund beneficiaries submitted the annual report to the CHU.

Based on the completed reports on performed audits and IA activities in public fund beneficiaries, a consolidated report was prepared which provides a summary of collected information and the comments by the CHU.

Table 12 presents the number of established internal audit functions and the number of systematised and filled internal auditor positions in public fund beneficiaries.

Table 12

Number of PFBs in RS that established internal audit function with systematised and filled positions in 2017				
PFBs	Submitted reports	Established IA	Systematised positions	Filled positions
Central/Republic level	111	81	248	243
Local level	151	100	204	154
Indirect PFBs	192	39	73	48
Total in RS	454	220	525	445

According to the reports received, 220 public fund beneficiaries have established internal audit function, 216 of which have established an internal audit unit or employed one internal auditor, with 525 positions systematised and 445 internal auditor positions filled. Four public fund beneficiaries have established internal audit function on the basis of agreement concluded with other public fund beneficiary with a functional internal audit unit in place. These beneficiaries account for 90% of public funds.

Based on 111 reports received, 81 beneficiaries on the Republic level have established internal audit with 248 systematised and 243 filled internal auditor positions.

Table 13

Total number of PFBs that established internal audit with systematised and filled positions in 2015, 2016 and 2017				
PFBs	Submitted reports	Established IA	Systematized positions	Filled positions
Total in RS in 2015	358	180	478	373
Total in RS in 2016	373	195	526	417
Total in RS in 2017	454	220	525	445

Table 13 presents the total number of established internal audit functions and the number of systematised and filled internal auditor positions in public fund beneficiaries for 2015, 2016 and 2017. Steady rise is visible in all key indicators for the development of decentralised internal audit function in public sector.

Table 14 presents the number of established internal audit functions and the number of systematised and filled internal auditor positions in public fund beneficiaries at the Republic level.

Table 14

Number of PFBs at the Republic level that established internal audit with systematised and filled positions in 2017					
PFBs		Submitted reports	Established IA	Systematized positions	Filled positions
Central/ Republic level	Ministries	16	18	64	46
	MSIO	3	3	34	32
	Other direct budget beneficiaries	56	28	53	42
	Public fund beneficiaries founded by RS	36	34	145	123
	Total	111	83	296	243

In 2017, following the parliamentary elections, the number of ministries was changed from 16 to 18. In newly-established ministries, internal audit function was established in a regulatory manner within the rulebook on systematisation and description of job positions. Internal audit was thus established in all 18 ministries, 3 mandatory social insurance organisations and 62 public fund beneficiaries at the Republic level. In 18 ministries, 64 job positions are systematised and internal audit is performed by 46 internal auditors; in 3 MSIO, 34 job positions are systematised and internal audit is performed by 32 internal auditors, while other 62 beneficiaries at the Republic level have 192 systematised job positions and the audit is performed by 165 internal auditors. Ministry of Youth and Sport and the Ministry of Environment Protection have not submitted the annual reports on performed audits and internal audit activities for 2017 as they recorded no internal audit activities in the reporting period, and the process of filling-in the internal audit positions is underway.

Ministry of Foreign Affairs, Ministry of Youth and Sport and Ministry of Environment Protection have established the internal audit units on the basis of the rulebooks on internal organisation and systematisation of job posts, however, all the internal auditor posts remained unfilled. The ministries responded that the reason for not filling-in the relevant posts was that the employees at these posts either retired or were relocated to different positions outside internal audit, and the newly-established ministry responded that they lacked the appropriate staff. Additionally, in the Ministry of Economy, only one internal auditor position is filled, as foreseen by the rulebook on organisation and systematisation of job posts, which is contrary to Article 5, paragraph 2 of the IA Rulebook.

In 10 ministries, internal audit units do not have a prescribed minimum of three internal auditors employed. As an underlying explanation, the ministries stated the current austerity measures in the Republic of Serbia, in terms of limiting the maximum number of employees and reducing the basic wages, which resulted in the internal auditors' departure from the public sector and impossibility of recruiting new ones.

Table 15 presents the number of established internal audit functions, systematised and filled internal auditor positions in direct budget beneficiaries of LSG units and public fund beneficiaries founded by local self-government.

Table 15

Number of PFBs at the level of local self-government that established internal audit with systematised and filled positions in 2017					
PFBs		Submitted reports	Established IA	Systematised positions	Filled positions
Local level	Direct budget beneficiaries of LSG units	85	59	123	92
	Public fund beneficiaries founded by LSG	66	41	81	62
	Total	151	100	204	154

Based on 85 reports received from the autonomous province, the city of Belgrade, cities and municipalities, 59 local self-government units established internal audit with 123 systematised and 92 filled internal auditor positions.

Table 16

Number of indirect PFBs at the Republic and local level that established internal audit with systematised and filled positions in 2017				
PFBs	Submitted reports	Established IA	Systematised positions	Filled positions
Indirect PFBs	192	39	73	48

Established IA units and independent internal auditors are directly accountable, in terms of organisation and function, to the head of public funds beneficiary.

At the level of ministries, internal audit units have been formally established, however, in ten out of eighteen ministries, these units do not even have the prescribed minimum of internal auditors employed. At the level of overall public sector, the percentage of public fund beneficiaries that established the IA function with one internal auditor position filled is 60%, with two internal auditors the percentage is 21%, and with three and more internal auditors the percentage is 19%. Significant percentage of established internal audit functions with two or fewer internal auditors raises doubt on whether the internal audit standards can be fully complied with.

The most frequently stated reasons for employing only one internal auditor to perform the internal audit work or for not filling the internal auditor positions are legal limitations on the maximum number of employees, insufficient number of highly educated staff, low salaries, inadequately systematised positions compared to the workload and its complexity, insufficient funds, lack of formal requirements, competition from the private sector, etc. Regardless of the reasons stated, an obligation to establish internal audit remains in force and the CHU will, within its competence, provide all the necessary assistance.

In newly-established internal audit units, where the internal auditors have not yet been included in the training process organised by the CHU, the reports state that significant amount of time is spent on dealing with other tasks which are not in the scope of internal audit. This is not in

compliance with the internal audit standards and directly affects the functional independence of internal auditors.

2.5. Planning and evaluation of work

According to the IA Rulebook, internal audit is conducted based on the strategic plan for a three-year period, the annual plan and the plan of individual audit engagement. The strategic plan is adopted by the end of the current year for the following three-year period, while the annual internal audit plan is adopted by the end of the current year for the following year.

The strategic plan lays down strategic goals of internal audit and is based on long-term objectives of a public fund beneficiary. The strategic plan of internal audit is prepared by the head of internal audit after the consultations with the management and is approved by the head of a public fund beneficiary.

The annual plan is prepared each year on the basis of the strategic plan. The head of internal audit prepares the annual plan, approved by the head of a public fund beneficiary.

Each individual audit engagement is conducted on the basis of a prepared plan, describing in detail the subject, goals, duration, allocation of resources, audit approach, techniques and the scope of audit. The individual audit engagement plan and related programs describe in detail the audit procedures and are prepared by the internal auditor and approved by the head of internal audit. An audit report is prepared for each performed audit engagement and contains the summary, objectives and scope of the engagement, conclusions, a detailed report, and may include the findings and recommendations, as well as the comments from the manager of the audited entity.

In order to ensure the quality of the internal audit procedure, continuous monitoring of each individual audit engagement is performed, done by the internal audit team leader.

The head of internal audit approves the individual audit engagement plans and monitors the implementation of internal audit methodology for each individual audit engagement. External evaluation of work of internal audit units has not been performed.

Department for internal control and internal audit conducted the quality review of internal audit work in eight ministries and three mandatory social insurance organisations, covering the period from 1 January 2016 to 30 September 2017. The review included the assessment of fulfillment of prescribed requirements for establishing internal audit units, audit scope, competencies and skills of internal auditors, functional and organisational independence of internal audit, internal audit charter and code of ethics, familiarity with the internal audit standards, strategic and annual internal audit plans, implementation of internal audit work methodology, internal audit risk management, internal quality controls, needs for future training courses and membership in professional associations. This report was prepared based on individual reviews performed by the staff of the Department for internal control and internal audit within the Ministry of Finance.

2.5.1. Overview of performed audits

Internal audit work in 153 public fund beneficiaries is conducted based on the strategic plan and the annual plan of activities approved by the head of the public fund beneficiary, and the individual audit plan approved by the head of internal audit. At the end of reporting period, in the public fund beneficiaries with established internal audit function, the process of adopting the strategic and annual plan was underway.

Table 17 presents a total number of planned, conducted and ongoing audits.

Table 17

PFBs		Number of audits in 2017			
		Planned audits	Conducted audits	Ongoing audits	Not conducted audits
Central/ Republic level	Ministries	106	72	6	28
	MSIO	50	49	0	1
	Other direct budget beneficiaries	79	58	3	18
	Public fund beneficiaries founded by RS	252	245	5	2
	Total	487	424	14	49
Local level	Direct budget beneficiaries of LSG units	170	125	2	43
	Public fund beneficiaries founded by LSG	116	83	1	32
	Total	286	208	3	75
Indirect PFBs		124	99	0	25
Total in RS		897	731	17	149

In 2017, according to the submitted IA activity reports, the number of planned audits was 897, out of which 731 audits were conducted, with 17 ongoing audits and 149 audits not conducted. Most frequently stated reasons for such a difference are reduced number of auditors due to their departure to more competitive jobs, changes in the organisational structure of public fund beneficiaries, changes in the annual plan of activities and the lack of exchange of practical experiences in the preparation of planning documents.

Table 18

Year	Total number of audits in 2015, 2016 and 2017			
	Planned audits	Conducted audits	Ongoing audits	Not conducted audits
Total in 2015	794	620	25	149
Total in 2016	869	709	105	55
Total in 2017	897	731	17	149

The increase in the number of established internal audit units and internal auditors resulted in the increase in total number of planned and conducted audits, however, around 16% of audits were not conducted, which indicates certain deficiencies in audit planning and performance, therefore the auditors should be further educated in this area by means of continuous education.

2.5.2. Issued and implemented recommendations

Internal auditors issued a total of 6,102 recommendations for improvement of operations and reduction of identified risks to an acceptable level (4,806 recommendations from the categorised areas and 1,296 from specific non-categorised areas), 4,379 of which were implemented by the end of 2017, while for the remaining recommendations the implementation deadline has not expired yet.

Table 19 presents the number of issued recommendations in 2017, classified into categorised areas and formulated in the annual report model, as follows:

Table 19

Areas the recommendations refer to		Central/ Republic level	Local level	Indirect PFBs	Total
1	Internal rules and procedures	1288	766	160	2214
2	Planning	139	132	39	310
3	Revenues and proceeds	48	99	33	180
4	Public procurement and contracting	312	365	64	741
5	Employees, salaries and allowances	239	134	38	411
6	Payments and transfers	111	51	18	180
7	Accounting records and financial reporting	264	197	94	555
8	Information systems	140	58	17	215
TOTAL:		2541	1802	463	4806

Table 20

Areas the recommendations refer to		Number of issued recommendations in 2015	Number of issued recommendations in 2016	Number of issued recommendations in 2017
1	Internal rules and procedures	2297	2492	2214
2	Planning	190	328	310
3	Revenues and proceeds	148	184	180
4	Public procurement and contracting	667	598	741
5	Employees, salaries and allowances	508	470	411
6	Payments and transfers	174	202	180
7	Accounting records and financial reporting	646	622	555
8	Information systems	148	159	215
TOTAL:		4778	5055	4806

Table 21

Types of recommendations	Number of issued recommendations in 2015	Number of issued recommendations in 2016	Number of issued recommendations in 2017
Recommendations from categorised areas	4778	5055	4806
Recommendations from specific non-categorised areas	1123	1112	1296
TOTAL:	5901	6167	6102

The difference of 1,296 recommendations in 2017 referred to in Table 21 is due to the fact that such recommendations were issued for specific areas characteristic for individual public fund beneficiaries, and could not be classified into the pre-defined areas in the annual report model.

The gradual increase in the percentage (nearly 22%) of recommendations issued in specific areas characteristic for individual public fund beneficiaries proves that the focus of internal audit work has shifted from the support processes to the core business processes in the organisation, that is, the assessment of overall internal control system in place within the organisation is reaching its real purpose. This kind of approach further supports the managerial accountability principle which applies to all the managers across the organisation.

The increase in the number of recommendations is visible in the area of information systems, that is, the share of these recommendations compared to previous years, as a result of growing use of information technology in business operations, and consequently, the increase of risks. This proves that internal auditors keep track of changes in business operations and adapt their plans to reflect the changes in public fund beneficiaries. The higher share of recommendations in the area of information systems calls for further development of internal control systems and

additional development of both internal auditors and all employees in the organisations, in order to facilitate better responses to the challenges arising from new technologies.

2.5.3. Internal audit consultancy services

The changes in Internal audit standards, in effect since 2017, have particularly highlighted the audit engagements in providing consultancy services. Following the changes in IA Standards, the template of annual report on performed audits and internal audit activities was amended to include the questions about consultancy services. Based on the reports submitted, the internal audit units in 40 PFBs planned a total of 224 consultancy audit engagements, with 279 engagements performed. The difference suggests that it is necessary, through continuous professional development of internal auditors, to improve the skills in the areas of planning and conducting the consultancy audit engagements.

2.6. Conducting internal audit in IPA bodies

The relevant provisions of the regulations which govern the functioning of the established structure for decentralised/indirect management of the EU pre-accession funds - IPA (Decree on the management of EU pre-accession assistance programmes under component I of the instrument for pre-accession (IPA I) – Transition assistance and institution building for the period 2007-2013 – Article 27, and Decree on the management of EU pre-accession assistance programmes under the instrument for pre-accession (IPA II) for the period 2014-2020 – Articles 26 and 31) have prescribed the relevant obligations relating to the frequency of conducting the internal audit of work processes in the bodies included in the structure and to the reporting on conducted internal audits.

According to the records maintained by the Management Structure for IPA programmes (Department for EU funds management within the Ministry of Finance) and the Contracting Authority (Department for contracting and financing of EU-funded programmes within the Ministry of Finance) in 2017, internal audit was planned to be conducted in all the bodies within IPA structure (IPA bodies), except for the three bodies where the internal audit function was not established.

In 2017, based on conducted internal audits, 65 recommendations were provided, which is a considerable increase compared to 2015 and 2016 (with 4 and 19 recommendations, respectively). The increase in the number of recommendations is the result of a more intensive internal audit performance in IPA bodies and a more focused approach of internal auditors. Most findings relate to the following areas: HR management, contract management, risk management, with a less number of finding relating to: financial management, internal control/control environment, public procurement, monitoring.

The audit reports of Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) from the previous years identified the audit finding that internal audit in IPA bodies is not performed properly due to limited capacities in internal audit (the number, competencies, internal auditor workload). Department for EU funds management and Department for internal

control and internal audit identified the corrective activities for the implementation of recommendations, followed-up and periodically reported to DG NEAR on the progress achieved. For the purpose of assessing the progress made in 2018, the DG NEAR audit mission was announced, focusing on the assessment of the progress made with respect to conducting internal audit in IPA bodies.

2.7. Internal auditor training

Continuous professional development of internal auditors is done by means of keeping up with the local and foreign literature and through direct sharing of experiences among the employees during the meetings, with professional organisations and the CHU.

The theoretical part of the internal audit training included 56 participants employed in public fund beneficiaries. In the period January – December 2017, a practical training on conducting the internal audit was held in 24 beneficiaries, for 58 candidates for acquiring the professional title of a certified internal auditor in the public sector.

The Certification Rulebook lays down the conditions for acquiring the title of a certified internal auditor in the public sector. After completing the training course envisaged by the Training program, which is an integral part of the Rulebook, the candidates sit for an exam before an examination board formed by the minister of finance.

The Training program for acquiring a professional title of a certified internal auditor in the public sector includes the following:

- 1) basic training for conducting internal audit, with the duration of 7 work days, i.e. 49 working hours;
- 2) basic training for financial management and control, with the duration of 5 work days, i.e. 35 working hours;
- 3) training for practical work on internal audit, by conducting two audits in the beneficiary where the candidate is employed at to perform internal audit tasks, with expert support of the Ministry of Finance, in the manner specified in the IA Rulebook.

During two examination periods in 2017, 48 candidates successfully passed the exam and acquired the title of a certified internal auditor in the public sector. By the end of 2017, a total of 377 internal auditors were certified in the public sector.

Throughout the year, within the framework of continuous professional development of internal auditors, the focus was on organising the training sessions to address the changes in international internal audit standards, in effect since 2017.

In September 2017, within the regional cooperation project ReSPA, the CHU selected 10 internal auditors to participate in a three-day international seminar in Skopje (Macedonia), on the topic of:

- Requirements of revised internal audit standards (the new IPPF), in effect since 1 January 2017;

- Impact of revised internal audit standards on internal audit methodology – what needs improvement;
Quality review of internal audit activities conducted by the CHUs – practical experience.

In cooperation with the experts from the Twinning project “Support to further development of public internal financial control (PIFC)”, the CHU organised two one-day workshops on the topic of “New Internal Audit Standards”, attended by 41 participants in November 2017.

3. CENTRAL HARMONISATION UNIT

3.1. Organisation

The CHU tasks are performed by the Department for internal control and internal audit, within the Ministry of Finance. By the end of 2017, the Department for internal control and internal audit had systematisation in place for 13 posts and 9 civil servants employed, as follows: the assistant minister, three employees in the FMC Harmonisation Group, four employees in the IA Harmonisation Group and an administrative officer.

Compared to 2016 when the number of systematised posts was ten, in the new Rulebook on internal organisation and systematisation of job posts in the Ministry of Finance⁸, adopted in August 2017, three new posts were systematised in the Department for internal control and internal audit, as follows: a junior FMC coordinator, a junior IA coordinator and a lead coordinator for FMC and IA. As some of the posts remained unfilled in the Department for internal control and internal audit, the CHU will continue to improve the staff capacities in the Department in the coming period, particularly by recruiting the appropriate and qualified staff.

Likewise, according to the PIFC Strategy, the CHU has to work continuously towards enhancing its existing professional capacities, through active participation of its staff at the relevant regional and international fora (conferences, workshops, training sessions...) in order to keep track of the latest trends and best practices in the area of internal controls.

In terms of functional allocation of activities in the previous period, some activities were shared by both Groups, as due to a limited number of staff, the strict specialisation and division of functions per groups could not be adhered to without affecting significantly the efficiency and effectiveness of performance of work activities. Furthermore, the situation in practice revealed that nine employees were not sufficient for addressing the extensive and complex tasks within the competence of the Department for internal control and internal audit in a timely and comprehensive manner, particularly considering the growing need for monitoring the progress made in the area of implementation of public internal financial control and providing practical consultancy to the public fund beneficiaries. The CHU, therefore, undertook the initiative by providing the recommendations for additional employees, which proved fruitful.

⁸ Government Conclusion 05, no. 110-7846/2017 of 17 August 2017 on approving the Rulebook on internal organisation and systematisation of job posts in the Ministry of Finance, 08 no. 112-01-1/408 of August 2017

3.2. Mandate

Pursuant to Article 83, paragraph 1 of the Budget System Law, the harmonisation of financial management and control and internal audit is done by the CHU within the Ministry of Finance, by performing the following tasks:

- 1) central harmonisation, coordination, monitoring the implementation and quality review of financial management and control and internal audit in the public sector;
- 2) defining common criteria and standards for establishing and functioning of the financial management and control system;
- 3) defining common criteria for internal audit organisation and operation in the public sector;
- 4) keeping the register of certified internal auditors in the public sector and keeping the record of internal audit charters;
- 5) professional development, certification and supervision of the work of internal auditors;
- 6) professional development of managers and employees in the public sector in the area of financial management and control, in line with the internationally acknowledged standards;
- 7) consolidation of annual reports on the status of financial management and control and internal audit.

In accordance with the defined scope of work and as a part of its regular and everyday activities, in the course of 2017, the CHU organised the basic training courses in the areas of FMC and IA, one-day workshops for managers of PFBs, conducted the certification program for certified internal auditors and provided continuous practical assistance to the heads of public fund beneficiaries and internal auditors in implementing the PIFC system within their organisations.

The CHU prepared the Consolidated annual report on the status of PIFC in the Republic of Serbia in 2016, approved by the minister of finance and adopted by the Government⁹, and published it on its web site¹⁰.

The CHU worked intensively on the preparation of the Draft PIFC Development Strategy for 2017-2020, which was adopted in May 2017, with particular attention dedicated to the implementation of requirements and comments by the European Commission's Directorate-General for Budget, in order to facilitate the efficient realisation of requirements referred to in Chapter 32 – Financial control. Also, the effort was invested to harmonise the PIFC Strategy with the Public Finance Management Reform Programme for 2016-2020 and the Republic of Serbia Public Administration Reform Strategy.

In the course of 2017, particular attention was given to the development of information and transparency in the area of PIFC, by *improving the CHU web site*, in terms of its functionality and visual aspects. More specifically, the existing content was updated with uploading of new documents, such as the FMC training modules, and also, up-to-date and more comprehensive

⁹ Government Conclusion 05, no.: 400-9974/2017 of 20 October 2017

¹⁰<http://ifkj.mfin.gov.rs/WP/wp-content/uploads/2018/01/KGI-1.pdf>

information on the current developments were published. The web site is made more user-friendly, with better availability of material. A new, highly important function was introduced, the e-learning platform, which allows all the users to easily access the basic training material, and this segment of the web site is planned to be more exhaustive in the future by including the new, relevant material (practical exercises, tests, IA training material, etc.).

In order to enable a more insightful and comprehensive overview of the status of PIFC, the CHU has committed to *improving the system of reporting on internal controls*, in the two following ways: 1) by improving the content and the format of the consolidated annual report, with the assistance of SIGMA experts, which would facilitate the best possible identification of weaknesses and propose the most efficient corrective measures, all of which was recognised and commended in the 2017 EC Serbia Progress Report; 2) by working intensively on the development of PIFC reporting software, which resulted in a successful completion of a test phase for around 200 PFBS, which submitted their annual FMC and IA reports for 2017 in an electronic format. The intent is to entirely transform the system of reporting on internal controls in the forthcoming period to an electronic format, via the CHU software, which will additionally improve the quality of reviewing the PIFC system, as a basis for its further development.

In addition to raising awareness of financial management as an integral part of the management process and improving the internal audit function, the first strategic goal set forth in the PIFC Strategy was defined as further development of the role of the Ministry of Finance – the CHU, in the area of coordination, monitoring, education and informing of managers and employees engaged in the PIFC process.

3.3. Chapter 32 – Financial control

At the Second Intergovernmental Conference between the Republic of Serbia and the European Union, in Brussels, on 14 December 2015, the Negotiation Chapter 32 – Financial control, was opened.

The Common Position of the European Union – Chapter 32 – Financial control, as of 3 December 2015 (AD 13/15 CONF-RS 2/15), confirms the progress made and notes that the activities and measures undertaken to date in the area of PIFC are in compliance with the requirements of the European Union. Additionally, the benchmarks are specified for provisional closing of the Chapter 32:

“Serbia amends its legal framework to ensure coherent PIFC legislation. Serbia implements PIFC legislation and the underlying policies and ensures sufficient administrative capacity at central and local level, in social security funds and in the state-owned companies. Serbia ensures that the centralized budget inspection function is compatible with the PIFC requirements.”

Negotiation chapter 32 includes four main areas: public internal financial control (PIFC), external audit, protection of the EU’s financial interests and protection of the euro against counterfeiting.

The concept of public internal financial control (PIFC) was developed by the European Commission aiming to assist the candidate countries in reforming their internal control systems and management of public funds (national and EU funds), by applying the international standards and best EU practices. In accordance with the internationally accepted standards and EU recommendations, the term “Public internal financial control” implies a comprehensive system established for the purpose of management, control, audit and reporting on the use of national and EU funds. The system covers sound financial management, financial and other controls which allow for lawful, economical, efficient and effective discharge of business processes. Public internal financial control system consists of: financial management and control, internal audit and the Central Harmonisation Unit for the harmonisation of financial management and control and internal audit in the public sector.

The Report of the European Commission on the progress of Serbia in the EU accession process, covering the results achieved in the course of 2017, in the part relating to the Negotiation Chapter 32, notes a moderate preparedness in this chapter and some progress in all the areas covered by this chapter. The report particularly highlights the importance of high level political support for implementation of public internal financial support at all levels of administration and in state-owned companies. Also, the report notes that Serbia should start preparing a policy document that defines and explains the national approach to the implementation of managerial accountability, and also provide a mandate for the Central Harmonisation Unit to implement quality reviews of internal control systems in individual institutions and ensure that the Central Harmonisation Unit starts to implement such reviews.

In the part relating to public internal financial control, the report highlights the remaining challenges and additional expectations for future.

The part of the report relating to strategic framework notes the adoption of the PIFC Development Strategy for the period 2017-2020 (adopted by the Government in May 2017). Additionally, the report underlines the need for maintaining focus on further implementation of activities foreseen by the Strategy and the corresponding action plan, relating to further development of managerial accountability and the mechanisms for coordination, monitoring and reporting.

In terms of managerial accountability, the report highlights the need for its full embedding in the administrative culture of the public sector, and the need for strengthening the accountability lines between the ministries and their subordinate bodies from the relevant area, as well as the need for additional linking between government and strategic planning.

The part of the report relating to internal controls and financial management and control notes that internal control is broadly in line with the internal control framework of the Committee of Sponsoring Organisations (COSO) and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI).

In the internal audit area, the report notes that the internal audit practice is still developing and the situation across the public sector is diverse. Internal audit is continuously developing, and there is a need that all the institutions establish the internal audit unit.

In terms of the CHU, the report notes the gradual shift of focus from training activities to methodological guidance, and the annual reports now attempts to better identify the weaknesses and propose corrective measures.

Owing to extensive activities of the Ministry of Finance – the CHU in the previous period, and particularly with the adoption of the PIFC Strategy by the Government, significant progress was made in the area of adjusting and harmonising the existing internal control systems in the public sector in the Republic of Serbia with the requirements of the Public internal financial control concept, developed by the European Commission (PIFC).

3.4. Quality review of internal audit work

The CHU conducted the quality review of internal audit work in eight ministries and three mandatory social insurance organisations, covering the period from 1 January 2016 – 30 September 2017. The report on the quality review of internal audit work, no.: 401-00-04700/2016709 of 28 December 2017 was submitted to the minister of finance and published on the web site of the CHU – Ministry of Finance.

The quality review was conducted in the following ministries:

- Ministry of Interior,
- Ministry of Defence,
- Ministry of Foreign Affairs,

- Ministry of Environment Protection,
- Ministry of Trade, Tourism and Telecommunication,
- Ministry of Public Administration and Local Self-Government,
- Ministry of European Integration,
- Ministry of Youth and Sport,
- Republic Health Insurance Fund,
- Republic Pension and Disability Insurance Fund,
- National Employment Service.

The review included the assessment of fulfillment of prescribed requirements for establishing internal audit units, audit scope, competencies and skills of internal auditors, functional and organisational independence of internal audit, internal audit charter and code of ethics, familiarity with the internal audit standards, strategic and annual internal audit plans, implementation of internal audit work methodology, internal audit risk management, internal quality controls, needs for future training courses and membership in professional associations.

This report was prepared based on individual reviews at the ministries and mandatory social insurance organisations referred to above and was performed by the certified internal auditors for public sector from the Department for internal control and internal audit in the Ministry of Finance.

The review identified the gaps in relation to the prescribed requirements on the minimum number of internal auditors in internal audit units; in the Ministry of Foreign Affairs, Ministry of Youth and Sport and Ministry of Environment Protection, the internal audit units were established on the basis of rulebooks on internal organisation and systematisation of job posts, however, all the internal auditor posts remained unfilled. The ministries responded that the reason for not filling-in the relevant posts was that the employees at these posts either retired or were relocated to different positions outside internal audit, and the newly-established ministry responded that they lacked the appropriate staff. In three ministries, despite the systematised three internal auditor positions in internal audit unit, only one position is filled, while in two ministries, more than three internal auditor positions are systematised and filled.

In mandatory social insurance organisations, the internal audit units have more than eight internal auditor positions filled.

It is necessary that the ministries, in line with their staff capacities, ensure a minimum of three internal audit employees, so that this function could be substantially utilised by the managers as a tool for organisation management.

The review also confirmed that internal auditors in the organisations subject to review were implementing the internal audit work methodology, they were familiar with the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors (IIA) and all internal audit units had adopted the main documents required for their work, such as: the charter, code of ethics, strategic and annual work plan, however, these documents were not internally published and disseminated to all managers and employees within the organisation.

The internal audit plans also include the audit of the system of decentralised/indirect management of pre-accession IPA funds, within the Operational IPA structure.

The resources for the execution of plans match the reality, with clearly stated limitations in the internal audit units with only one employee. The plans have not fully reflected the consultancy engagements, which are largely present in internal audit work. Some internal audit units planned to perform the follow-up audits, to a limited extent. The most commonly stated reason why these audits failed to be conducted was insufficient number of staff in internal audit units, that is, an insufficient number of available man-days compared to the audit scope.

3.5. International cooperation

In June 2017, the Department for internal control and internal audit started with the implementation of Twinning project “Support to further development of public internal financial control (PIFC)” in cooperation with the Ministry of Economy and Finance of the Republic of France. The contract is concluded for the period of 24 months with the total value of the project of 2 million euros. The project is funded by the EU pre-accession funds (IPA 2013) and co-funded by the Republic of Serbia. The overall objective of this project is establishing modern and efficient public finance management system at all government levels, expressed in a more transparent use of public resources and saving of public budget funds.

The specific objective of the project is to support improvement and modernisation of management of public finance system, with the focus on PIFC and rollout of consolidated PIFC methodologies and procedures in public sector, in line with applicable international standards and best EU practices.

During the first six months, the activities were dedicated to screening the state of play in the area of public internal financial control, in order to closely define the priorities covered by the Twinning project in line with the objectives of PIFC Strategy, relating to both internal control and internal audit and strengthening the capacities of the CHU.

In November 2017 within the Twinning project, the Workshop on new standards in internal audit was organised for a total of 39 participants. At the workshop, the lecturers presented the trends in internal audit professional framework, changes in internal audit standards, new concepts and reasons for their adoption, the most important global trends, the role of internal auditors in the future, and other relevant topics.

Also, in November 2017, within the Project, a study visit was organised to France, led by the minister of finance, with the representatives of the minister’ cabinet and the CHU representatives. The study visit was aimed to raise the capacities of the Ministry of Finance and the CHU in particular, by gaining the first-hand insight into the functioning of the financial management and control and internal audit in an EU member state, particularly focusing on the scope of work and the role of the Central Harmonisation Unit.

In addition to the CHU, the Twinning project also involves other line ministries, local self-government units and other budget beneficiaries.

One of the aspects relating to improvement of public internal financial control is further cooperation with the project “Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management” conducted by the United Nations Development Programme (UNDP), and funded by the Swiss Development Cooperation (SDC).

The objective of the project „Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management” is improving the mechanisms of the Ministry of Finance – the CHU, in strengthening and structuring the public internal financial control and accountable public funds management.

The project is being conducted with the aim of improving the FMC system within the units of local self-government and ensuring that the IA function in local self-governments is in place, fully-functional and supports the managerial accountability concept. The broader objective of the project is also achieving better cooperation between internal and external audit, aimed at increasing the efficiency of internal audit and making a shift in focus of external audit to performance audits.

During the period covered by the report, a number of activities were implemented relating to further improvement of the system of electronic reporting by the public fund beneficiaries on the implementation of financial management and control and internal audit activities. In the previous period the system was provided with the support of the ongoing project conducted by UNDP.

The expected positive effects of the information system should, in the first place, reduce the time necessary for entering and processing of data, the time for completing the questionnaire, as well as the possibility of errors in reports and data processing, and the paper work will be reduced to minimum. In the upcoming period, the CHU will, together with the project experts, continue its activities on improving the information system in order to ensure, as soon as possible, its full functionality and demonstrate to the greatest extent all of its advantages. More specifically, the plan is to prepare a detailed written user manual which should contain the guidance on how to access the account, a detailed description of sections in the software and use of other tools in the software, including the technical instruction for filling-in the electronic questionnaire.

At the level of external networking, the cooperation is maintained with the State Audit Institution, the Serbian Association of Internal Auditors – the associate member of the Global Institute of Internal Auditors, the Serbian Chamber of Certified Auditors and the Association “Internal Auditor”. The contacts with the Central Harmonisation Units from other countries are also maintained for sharing experiences related to establishment and development of PIFC.

With respect to international cooperation, several meetings were held with the representatives of the European Commission’s Directorate-General for Budget and Support for Improvement in Governance and Management (SIGMA) – an initiative of the Organisation for Economic Co-operation and Development (OECD), during which the PIFC-related topics were discussed.

III. CONCLUSIONS AND RECOMMENDATIONS

Conclusions and recommendations for further development and improvement of public internal financial control system were drawn based on the submitted and analysed reports from the public fund beneficiaries, the key objectives and guidelines defined in the PIFC Strategy and the recommendations provided by the European Commission in its 2017 Progress Report.

1. Financial management and control

With respect to *submission of annual reports* on the FMC system, the following has been identified:

- In 2017 *significant progress* was made both in terms of the *number of submitted reports* and the *number of analysed reports*; 212 PFBs performed the self-assessment for the first time by filling-in the questionnaire, which is an increase of **23%** compared to the previous year 2016. The number of duly submitted reports included in the Consolidated annual report rose by 135, that is, by **18%**;
- There still remains *a significant share of unduly submitted reports (18%)*, which were either untimely submitted, incomplete or incorrect, and as such were not included in the Consolidated annual report; These were mostly submitted by “small” beneficiaries (limited budget, small number of staff);
- The conclusion is that *the CHU training sessions significantly contributed to the positive results* in reporting, as more than 90% of PFBs whose representatives attended the training, actually submitted a proper report;
- Total expenditures and outflows of 76 direct budget beneficiaries that submitted the annual report on the FMC system for 2017 account for **87% of total expenditures and outflows of the RS budget for 2017**.

In the area of *establishing the FMC system*, the following has been identified:

- Considering the overall analysis of elements of establishing the FMC system at the level of RS, *the slight progress of 1%* was achieved when compared to the previous reporting year, mostly owing to the positive developments at the central level (by 2%), whereas the situation at the local level and the level of indirect budget beneficiaries remained the same as the last year;
- Despite the significant progress in the area of adoption of the *action plan* (by 4%), this segment remains the weakest point in the process of establishing the system, the same as during the previous two years. On the other hand, the segment with the highest score is still *establishing the internal controls in business processes, taking into consideration the most significant risks*, although this segment recorded the sharpest drop compared to the previous year (by 5%);

- Public fund beneficiaries from the category of **MSIO** and **ministries** at the central level, achieved significantly **better results** compared to other beneficiaries;
- **At the local level**, some sub-categories of PFBs are **moving towards more uniform level of quality**, with the level of direct budget beneficiaries recording somewhat better results, by 2% (local government bodies and services), unlike the previous year when this level had substantially higher results (by 11%);
- The lowest indicators are seen at the level of indirect budget beneficiaries, for all the assessed parameters, just like the previous year.

In assessing the individual elements of the FMC system, that is, the five elements of **COSO framework**, the following has been identified:

- Considering all the observed elements, the **significant progress of 10%** was achieved at the level of RS when compared to previous year 2016, as a result of positive developments in all three categories of PFBs;
- The best results, for each of the assessed parameters, were achieved at the central/Republic level, the same as during two previous years, with the sub-category of **MSIO** as **the best**;
- Unlike 2016, when the category of indirect budget beneficiaries was last in terms of all five parameters of COSO framework, the situation is relatively balanced compared to the local level; **indirect budget beneficiaries are even better positioned compared to local self-government** (by 1.6% in average);
- All the individual elements have recorded an increase in percentage, with the area of **information and communication** (88%) as the **leader** compared to other assessed areas, and is followed by control environment (85%);
- **The weakest point** in the system is **monitoring, supervision and evaluation** (62%) even though the highest progress was achieved specifically in this area, by 14%; this is a very important information, considering the fact that this very segment recorded the lowest score in the previous three-year period, while setting up an audit board is the last in rank;
- Particularly relevant is reviewing the aspect of **managerial accountability** on the basis of newly-introduced questions on establishing the accountability of managers at all levels for the decisions, actions and results to the one who appointed them or delegated such responsibility upon them, and on the basis of the question on the level of hierarchical system of transfer of authority in accordance with the levels of management, with the average score slightly above the value of 4, out of maximum 5.

Such **overall progress**, both in terms of submitted and analysed reports, and the organisational establishment and development of the FMC system, indicates primarily that the awareness was raised across the public sector about the role and importance of internal control, which is the achievement **largely contributed to by the numerous activities of CHU in the previous period**, such as: organising basic training courses, organising specialised training courses and workshops

for managers, redesigning of training material, improving the CHU web site, introducing the e-learning platform, organising conferences and distributing the promotional publications, etc. Likewise, upgrading the questionnaire with additional questions has contributed to a more comprehensive and insightful overview of the FMC system, that is, to obtaining a more realistic and obviously, a more positive image compared to the previous reporting period.

By analysing the narrative part of the questionnaire, that is, the **key comments, suggestions and proposals for future training courses** in the area of FMC, the following conclusions were reached:

- Most PFBs that provided their comments have stated that the main obstacle for establishment and continuous development of the FMC system is **staff problems**, such as: insufficient number of employees, „employment restriction“, frequent changes of management and members of FMC Work groups, departure of high-quality and trained staff, part-time staff, etc.

- In addition to these, beneficiaries highlighted the **following internal control issues**: no internal audit established, which makes the establishment of internal control system more difficult: a lot of managers and employees consider the FMC system as relating only to financial processes; risks are not assessed, so the management is not engaged in their treatment; no adequate coordination in place between direct and indirect budget beneficiaries, etc.;

- Overall in terms of training courses, the beneficiaries highlighted the need for more frequent training courses, and considering the needs for **specific training courses** in the FMC area, the following areas are often mentioned: fundamentals of the FMC system, risk management and drafting the risk management strategy, self-assessment and reporting on internal controls, strategic and annual planning, defining goals and performance indicators, managerial accountability, specialised training sessions for indirect budget beneficiaries, organised in cooperation between the CHU and direct budget beneficiaries;

- A lot of beneficiaries insisted on being provided with **as many practical examples as possible**, and particularly with the example of a proper internal control system in practice.

The following **recommendations** are provided for eliminating the identified weaknesses:

- Further activities should be pursued towards **improving the regulatory and methodological internal control framework** in the public sector, through: defining the selection of PFBs which should be covered by the Consolidated annual report, so that the development and monitoring of internal control systems could be based upon the largest PFBs, and also, by upgrading the COSO framework, providing better elaboration of the managerial accountability concept, developing the area of irregularity management, etc.;
- the CHU should work towards improvement and development of **specific guidelines, practical tools and models** in the internal control area which would provide the additional support to the beneficiaries, in particular the ones relating to risk management and implementation of managerial accountability concept;

- the CHU should continue its work aimed at ***improving the reporting system*** through further upgrading of the questionnaire and the consolidated report, and in particular, through full implementation of electronic reporting via the PIFC software, so that the status of internal control system in RS could be reviewed in line with the highest quality standards;
- the CHU should continue ***raising awareness of the role and importance of internal controls*** in the public sector and provide practical assistance to the beneficiaries through organising basic and specialised workshops for top management, particularly addressing the following aspects: action plan, monitoring, evaluation and supervision, risk management, self-assessment and reporting, managerial accountability;
- In cooperation with SIGMA experts and with the support of Twinning project, the CHU should continue its work on developing the ***e-learning*** platform, by uploading new documents and practical tools which will be available to all interested beneficiaries, with a view to raising awareness, skills and experiences about internal controls;
- ***Direct and indirect budget beneficiaries should establish more intensive cooperation*** in the area of FMC and at the level of specific fields (healthcare, education...), for sharing experiences and transferring the good practices from higher to lower levels;
- Public fund beneficiaries, and in particular the large and complex organisations are recommended to ***set up an audit board***, as an advisory body for internal control and internal audit issues, which would contribute to achieving the higher quality of PIFC.

The conclusions reached based on the analysis of PFBs' annual FMC system reports, as well as the resulting recommendations for further improvement of this system, are to a significant extent ***aligned with the 2017 EC Progress Report***, stating, *inter alia*, the following: managerial accountability needs to be reinforced through the strategic and regulatory framework, the FMC Manual needs to be upgraded, the area of irregularities and risk management needs to be further developed, the annual report attempts to better identify weaknesses and propose corrective measures, etc.

If we refer to the recommendations from the ***last year Consolidated report***, as suggested by the European Commission in its last Progress report, we may conclude that the ***majority of recommendations were implemented***, that is, delivered certain results, such as:

- the CHU ***updated its self-assessment questionnaire***, improved its content and format and enabled ***electronic submission of the annual FMC report***, in order to enhance the quality of submitted and processed information which are the basis for the preparation of the Consolidated annual report;
- in its training courses and workshops, the CHU ***focused particularly on the lowest assessed segments of the system in 2016*** (drafting the action plan and map of business processes, monitoring, evaluation and supervision) and by doing so provided practical support to the beneficiaries, all of which resulted ***in progress*** in all these segments in 2017 (86 newly-prepared

action plans, 63 new maps of business processes, increase of 14% in monitoring and supervision);

- the results of the self-assessment of elements of COSO framework show that the *position of indirect budget beneficiaries significantly improved* compared to other categories of PFBs in terms of quality of internal controls, which can relate to the last year recommendation on the need for more intensive cooperation between direct and indirect budget beneficiaries in the area of FMC and at the level of specific fields (healthcare, education...), for sharing experiences and transferring the good practices, and also to the more frequent presence of indirect budget beneficiaries at the CHU training courses in the course of 2017;

- Public fund beneficiaries, and in particular the large and complex organisations were recommended to *set up an audit board*, as an advisory body for internal control and internal audit issues, which would contribute to achieving the higher quality of PIFC, all of which resulted in the increased number of audit boards (by 8) and a moderate increase in the average quality score of this segment in the self-assessment questionnaire (from 1.2 to 1.3).

The recommendation that has not been implemented yet, but is being actively discussed at the CHU for the purpose of finding a suitable solution, refers to the amendment to the Budget System Law, and includes the identification of a representative sample of PFBs which will be subject to the Consolidated annual report, that is, the sample which will be specifically focused on in terms of monitoring and analysis of the internal control system in the RS.

2. Internal audit

The most relevant *weaknesses* identified in the internal audit area are as follows:

- In three out of eighteen ministries, not a single internal auditor position was filled;
- Significant percentage of established internal audit functions with two or fewer internal auditors raises doubt on whether the internal audit standards can be fully complied with, and the existing systematised internal auditor positions have not been entirely filled;
- Large number of non-performed audits compared to the planned number of audits.

The following *recommendations* are provided for eliminating the identified weaknesses:

- It is necessary to make additional efforts within the current human resources in the ministries to ensure that appropriate staff is selected and recruited as internal auditors;
- Public fund beneficiaries are required to adjust the systematisation, number of employees and fill the internal auditor positions, in accordance with the IA Rulebook, taking into consideration the risks, complexity of operations and the funds under their management, and to harmonise the remuneration and the reward system of internal auditors to match the workload and requirements in terms of competencies necessary for performing the internal audit tasks;

- Provide continuous training for internal auditors which will ensure more appropriate planning and rational utilisation of internal audit resources in public fund beneficiaries.

3. Central Harmonisation Unit

With regards to the status, activities and future development of the CHU, the *key findings* are as follows:

- The new Rulebook on internal organisation and systematisation of job posts in the Ministry of Finance of August 2017 recognised the CHU request for reinforcing the professional capacities by systematising three additional job posts in the Department for internal control and internal audit;
- In the previous reporting period, the focus of staff engagement gradually shifted from providing basic training courses and certification tasks for certified internal auditors in the public sector, to the analysis and monitoring the implementation of PIFC system and review of its quality;
- In the course of 2017, the CHU dedicated a significant portion of its activities to the development of information of and transparency in the area of PIFC, particularly by improving its web site (updating of existing documents, uploading four FMC training modules, publication of a new model of IA Charter, more up-to-date and comprehensive information on latest activities, better user-friendly experience and availability of content, etc.), which resulted in improvement of internal controls in PFBs, as shown by the results of the Consolidated annual report;
- In cooperation with SIGMA consultants and Twinning project, in the course of 2017, the CHU worked intensively on the development of the system for reporting on internal controls, by improving the content and format of the consolidated annual report and the development of software for reporting on PIFC system, with a successful testing phase conducted for around 200 PFBs, which submitted electronically their annual reports on the FMC and IA systems for 2017.

The following *recommendations* are provided for eliminating the identified weaknesses:

- As the newly-systematised job post of the lead coordinator for FMC and IA was successfully filled in the previous period, it is necessary to continue with the recruitment process and fill-in the remaining job posts which would enable the CHU to focus more on aspects of methodology, as well as the areas of monitoring, analysis and reviewing the quality of PIFC system;
- As important activities were undertaken during the previous year on improving the CHU web site, particularly by introducing the e-learning platform, which enabled all the users to easily access the training material, in the coming period it is necessary to continue with uploading the new material (practical exercises, tests, IA training material, etc.);

- In the coming period, the CHU should continue the cooperation with SIGMA consultants and Twinning partner on improving the system of monitoring and reporting on internal controls which should be entirely transformed into an electronic format, via the CHU software, which will additionally improve the quality of reviewing the PIFC system, as a basis for its further development;
- It is necessary to enhance the professional knowledge of the CHU staff by monitoring the international practices in the areas of financial management and control and internal audit (through participation at international conferences organised by SIGMA, PEMPAL, European Commission and by other international and regional institutions), in order to facilitate the implementation of international standards and recommendations of the European Commission, all with a view to successful realisation of requirements relating to Chapter 32;
- The CHU should continue with promoting the importance of public internal financial control, by organising seminars and specialised workshops for senior managers, and by cooperating with relevant media channels.

IV. REPORT ON THE ACTIVITIES FROM THE ACTION PLAN FOR 2017-2018 WITHIN THE STRATEGY FOR DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL IN THE REPUBLIC OF SERBIA FOR THE PERIOD 2017-2020

The most relevant aspect of further development of strategic and legislative framework for the improvement of public internal financial control is certainly the preparation of the Strategy for Development of Public Internal Financial Control in the Republic of Serbia for 2017-2020 (accompanied by the Action plan for its implementation in 2017 and 2018), adopted by the Government of the Republic of Serbia in May 2017. The adoption of the PIFC Strategy is aimed at ensuring the implementation of financial management and control and internal audit in the overall management system in the public sector, for the purpose of providing value for money to the citizens of the Republic of Serbia in an effective, efficient and economic manner, by transposing the national policy goals into the goals of the public sector institutions, which will enable an efficient assessment of risks with respect to the defined goals and establishing of adequate controls. One of the main objectives of the PIFC Strategy is certainly the commitment to the concept of managerial accountability of both the managers and employees across the public sector in the Republic of Serbia.

The implementation of activities foreseen in the Action plan is reported to the Government through the Consolidated annual report on the status of public internal financial control.

Strategic objectives:

1. Strengthening the coordination of financial management and control and internal audit activities by the CHU

Working group for financial management and control and internal audit in charge of coordination of cross-sector approach to FMC and IA within the Ministry of Finance was formed by a decision of the minister of finance in June 2017. The Working group is chaired by the assistant minister in charge of the Department for internal control and internal audit. The Working group is tasked with the coordination of the cross-sector approach to FMC and IA within the Ministry of Finance. The appointed members of the Working group are the representatives of the Department for internal control and internal audit, Treasury Administration, Budget Department, Department for contracting and financing of EU funded programmes, Department for EU funds management, Department for financial system, and the Department for control of public funds.

The last meeting of the Working group was held in January 2018 and the members of the Group discussed the activities of the CHU in the course of 2017 and the future activities to be undertaken for improving the PIFC system.

In addition to the meetings with established working groups, the coordination and cooperation with relevant stakeholders was also achieved in the form of bilateral consultations with the Departments referred to above and the Treasury Administration, relating to strengthening capacities of internal audit at the local self-government level and by conducting internal audit in

the bodies and within the structure for indirect management of the EU pre-accession assistance, etc. (Measure/activity 1.1; 1.2)

Specialised seminars for internal auditors from the state authorities included in the structure for decentralised/indirect management of the EU pre-accession assistance (IPA structure), jointly organised by the Department for internal control and internal audit and the Department for EU funds management within the Ministry of Finance, which had become a regular event, had a positive impact on further improvement of internal auditors' capacities for successful planning and conduct of internal audit in the bodies within IPA structure.

With the assistance of Twinning project, in February 2018 a workshop was organised on the topic of "*Effective audit reports – Reporting and formulation of recommendations*". The Programme of general continuous professional development of civil servants for 2017, that is, the part relating to management of EU financial assistance, originally included the plan for organising the advanced seminar (which would make a logical continuation of the previously organised basic seminars) for internal auditors, on the key work processes in the bodies within IPA structure (with a focus on their specificities compared to other work processes in state bodies), and with the participation of competent lecturers working in horizontal bodies within IPA structure (Management structure and Contracting authority). The adoption of the Law on National Academy for Public Administration in late 2017 and the resulting organisational changes, caused a number of planned workshops/seminars to be postponed to the third and fourth quarter of 2018. (Measure/activity 1.3)

Cooperation with State Audit Institution is maintained on a continuous basis, through meetings on cooperation, organising workshops and lectures for exchange of experiences. One of the activities organised by the Department for internal control and internal audit in cooperation with State Audit Institution, Public Procurement Office and Governmental Audit Office of EU Funds (Audit Authority) was the conference on the topic of "*Importance of internal control for efficient and effective public procurement*", held in Arandjelovac in July 2017. The conference was organised with the support of the project "Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management", conducted by UNDP. The goal of the conference was improving the accountability and transparency in public fund management. (Measure/activity 1.4)

2. Continuous development of methodological manuals and guidelines for internal audit and financial management and control

Concerning the updating and improvement of the existing methodological manuals and guidelines for FMC and IA, in the course of 2017, a number of preparatory activities was carried out for improving the legislative framework, such as: Risk Management Guidelines, which were published on the web site of the CHU within the Ministry of Finance, and which will constitute the basis for upgrading the Manual for financial management and control; also, the consultations with the experts from PLAC project were organised in order to introduce the concept of irregularity management, which should enhance the legislative framework; the CHU conducted the quality review of IA work, and also, the FMC training material was updated and improved. Model of IA Charter was also uploaded on the CHU web site. (Measure/activity 2.1)

3. Coordination of continuous professional development

Considering the planned external cooperation in organising the training and professional development for the managers and civil servants on the topics of FMC and IA, the CHU is still considering the possible options. In the fourth quarter of 2017, with the support of UNDP, the CHU established the cooperation with an international expert, a former president of the European Confederation of Institutes of Internal Auditing (ECIIA), and discussed the possibilities for improving the training courses in the areas of FMC and IA. The expert drafted the gap analysis report and the road map for the transition from the current model of certification of internal auditors in the Republic of Serbia to the proposed model.

The plan is to hire local experts for additional technical and legal harmonisation of proposed arrangements in the report. The key suggestions include the elimination of the mandatory five-day FMC training for internal auditors, changes in the training programme, publication of the training material on the e-learning platform within the CHU web site which would allow for better availability and self-learning, hiring academic and professional organisations which would conduct the theoretical training and involvement of certified internal auditors in the mentoring process who would need to possess appropriate qualifications (a minimum of three years of experience as a head of internal audit unit and a professional exam on conducting the mentoring process for the candidate for acquiring the title of certified internal auditor). In this way, the availability of training courses and the possibility of acquiring the certified internal auditor title would be much greater, and at the same time the need for direct involvement of the CHU staff would be reduced. (Measure/activity 3.1)

During the reporting period, particular attention was dedicated to the activities on further development of professional skills of CHU staff.

In April 2017, the Center of Excellence in Finance (CEF) organised a workshop on strengthening the capacities for efficient management of internal audit functions in public sector organisations in southeast Europe. The workshop was attended by the CHU staff as well. The goal of the workshop was to inform the participants about the requirements of the international internal audit standards, in the part relating to the management of internal audit functions, the importance of risk-based planning for harmonising the internal audit activities with the objectives of the organisation and appropriate allocation of audit resources.

Each year, the World Bank and the Centre for Financial Reporting Reform organise on a continuous basis the seminar on Internal Audit Training of Trainers (IA ToT) within the Vienna Institute, attended by a representative of the Department for internal control and internal audit, the CHU. The aim of such a seminar is certainly the qualitative strengthening and improvement of public internal auditors' capacities and achievement of high level methodological approaches and training of internal auditors within their respective institutions, in line with the International Standards for the Professional Practice of Internal Auditing (ISPPIA).

In June 2017, the CEF organised the workshop, titled "Internal Auditing for Non-Auditors", attended by the CHU staff. This active workshop had a goal to inform about and consider the good practices and new internal audit methods.

In June 2017, within the joint initiative of the European Commission and the EU member states, the Conference on public internal control was organised in Budapest, Hungary, with the attendance of the representatives of the Department for internal control and internal audit. The conference focused on discussing the good practices and the new methods by the member states, on the topic of: Public internal control systems in the EU, three lines of defence in public sector, optimisation and simplification of management.

In September 2017, the representatives of the Ministry of Finance, Department for internal control and internal audit attended the three-day seminar held in Skopje, organised by ReSPA, on the topic of “Revised internal audit standards”, particularly focusing on:

- Requirements of revised internal audit standards (the new IPPF), in effect since 1 January 2017;
- Impact of revised internal audit standards on internal audit methodology – what needs improvement;
- Quality review of internal audit activities conducted by the CHUs – practical experience.

In March 2017, through its Public Expenditure Management Peer Assisted Learning network (PEMPAL), the World Bank organised a meeting of the Audit in Practice Working Group (AiP WG) and a meeting of Internal Control Working Group (IC WG) in Budapest, Hungary, attended by the representatives of the Department for internal control and internal audit. The topics for the meeting were the review of the audit cycle, discussion on the experiences in implementation of International Standards for the Professional Practice of Internal Auditing (ISPPA) 2210 – engagement objectives, understanding the theory and practice in establishing audit objectives within AiG WG and establishing proper accountability through three lines of defence, comparing the concept of accountability applied in the centralised public administration system compared to the decentralised system by exchanging good practices of the member states within IC WG. The following meeting of the AiG WG within the PEMPAL network was organised in Tashkent, Uzbekistan in October 2017, with the participation of the CHU representatives. The topics for the meeting were the review of the audit planning process, including the definition of audit objectives, scope, techniques, timing and allocation of necessary resources, and continuation of drafting the practical case study for AiP WG use, as well for further use by member countries for training process. (Measure/activity 3.2)

4. Development and implementation of IT support to PIFC

Particular attention in the previous period was dedicated to development and implementation of IT support to PIFC. The following activities were implemented accordingly, such as, improvement of the CHU web site, implementation of the platform for e-learning and further development of the information system for electronic reporting on FMC and IA.

The web site and the implementation of the e-learning platform were upgraded by uploading the FMC training material which includes four modules, the IA material with also four modules, the video material which should facilitate the access to the information system for the users, the banner which allows the downloading of the application forms for FMC and IA training courses,

and the regular updating the web site with the up-to-date news, training sessions and seminars/workshops.

During the period this Report refers to, including the first quarter of 2018, a number of activities were implemented towards further development of the information system for electronic reporting by the public fund beneficiaries on the implementation of financial management and control and internal audit activities, with the support of the ongoing project conducted by UNDP. In the first quarter of 2018, an in-depth testing of software application/information system was carried out. In order to ensure the appropriate sample of beneficiaries to facilitate the testing procedure, the CHU used the formal correspondence and addressed most public fund beneficiaries which submitted their annual reports the year before. The sample of beneficiaries for conducting the testing procedure was selected within the planned deadline and included around 200 public fund beneficiaries.

To ensure the beneficiaries are informed on how to use the information system, a video tutorial was produced – *Guide for accessing the portal*, and published on the CHU web site. The tutorial provides detailed instructions to the beneficiaries on how to create and access their account. For all the beneficiaries that are unable to access the video material due to technical issues, a separate written instruction was provided on how to access the information system. The testing results almost entirely met the initial expectations. In the upcoming period, the CHU will, together with the project experts, continue its activities on improving the information system in order to ensure, as soon as possible, its full functionality and demonstrate to the greatest extent all of its advantages. (Measure/activity 4.1; 4.2; 4.3)

5. Monitoring and quality control

The Report of the European Commission on the progress of Serbia in the EU accession process, covering the results achieved in the course of 2017, notes the progress achieved in terms of quality of the Consolidated annual report on the status of public internal financial control in the Republic of Serbia for 2016, which is significantly contributed to by the improvement and redesign of the web site and conducting the testing phase of the electronic reporting system, as referred to in measure 4.3 above. The level of reporting is therefore improved, and the trend should be followed in the years to come. (Measure/activity 5.1)

6. Coordination with other ministries and other key players

The procedure of setting-up a sub-group within the Public administration reform council, which would include the CHU and the representatives of the Ministry of Public Administration and Local Self-Government, Ministry of Economy, Ministry of Justice and Public Procurement Office and which would address the coordination of tasks in the area of financial management and control and internal audit as foreseen by this strategy and report the Public administration reform council thereof, through the mechanism already defined in the action plan for the implementation of the Public Administration Reform Strategy, in the part relating to financial management and control and internal audit, *is underway*, due to additional coordination in the process of appointing the members of the working group. (Measure/activity 6.1)

7. Promote the importance of PIFC reform

On the occasion of adopting the Strategy, on 4 October 2017 at the Palace of Serbia, a special conference was organised for raising awareness of the importance of public internal financial control. The conference was opened by the minister of finance and moderated by the assistant minister in charge of the Department for internal control and internal audit. In addition to the representatives of state authorities in the Republic of Serbia, the conference was also attended by the Ambassador and the Head of EU Delegation, and the representative of the European Commission's Directorate-General for Budget, who offered their unanimous support to this reform area, as a part of overall public administration reform. (Measure/activity 7.1)

The importance of PIFC is certainly being highlighted at all times. In addition to workshops, training courses, seminars and providing specific guidance relating to PIFC area, the promotion of PIFC is also important through the relevant media channels, such as the CHU web site, and the distribution of various promotional material which contribute to raising awareness and benefits of internal control system. (Measure 7.2)

8. Provide support to all managers of public fund beneficiaries for substantial understanding of the significance of financial management and control activities as an integral part of strategic and operational processes with emphasis on managerial accountability

In order to ensure a better overview of importance of PIFC and substantial understanding of managerial accountability concept, the CHU, in cooperation with SIGMA experts, upgraded and extended the self-assessment questionnaire for financial management and control and the questionnaire for the self-assessment of internal audit in terms of improving their content and format, for the purpose of improving the quality and broadening the scope of data submitted by public fund beneficiaries. (Measure/activity 8.1)

Intensive activities were undertaken for developing the guidelines for the implementation of the managerial accountability concept, as only the managers who are aware of their accountability may be actively involved in the development of internal control systems. In cooperation with the Twinning project experts, the CHU developed the Guidelines on the Managerial Accountability Concept, which are in line with the joint document on managerial accountability of managers, clarifying the roles of individual participants in financial management and control, prepared by SIGMA experts and the European Commission's Directorate-General for Budget for the Western Balkans. Guidelines on the Managerial Accountability Concept are available at the CHU web site. (Measure/activity 8.2)

In December 2017, the CHU organised four one-day workshops, primarily intending to raise awareness of financial management and control at the highest level, that is, to educate the managers in terms of the role and importance of managerial accountability and the implementation of internal controls in the public sector.

In January 2018, a two-day workshop was held, on the topic of "FMC Concept and New COSO Framework", organised by the CHU in cooperation with the Twinning project.

In February 2018, a workshop was held, on the topic of “*Effective audit reports – Reporting and formulation of recommendations*”, organised by the CHU in cooperation with the Twinning project. (Measure/activity 8.4)

9. Strategic planning that links organisational objectives to the Government’s overall vision

The adoption of the Law on the Planning system of the Republic of Serbia (“Official Gazette of RS”, no. 30/18) has regulated the methodology of public finance management, analysis of effects of public policies and regulations and the contents of individual public policy documents. (Measure/Activity 9.1)

The regulations on drafting the methodology for the development of medium-term (strategic) plans will be adopted in accordance with the deadlines laid down by the Law. The deadlines for the full implementation of the measure will be adapted in the Action plan for 2019-2020. (Measure/activity 9.2)

10. Operational planning that links operational objectives to resource requirements (budgetary, personnel and other assets)

As the key institution for amending the existing legislation which regulates the principles for the internal organisation of the public administration which will provide creation and/or designation of a special internal organisational unit which will be in charge of exercise of the functions of professional support and coordination in the preparation and implementation of strategic and operational plans in accordance with the defined objectives of the organisation and justified demands for resources, the Ministry of Public Administration and Local Self-Government has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure. The delay in drafting of regulations was conditioned by the need for a more comprehensive solution which would also include the document produced by SIGMA and the European Commission’s Directorate-General for Budget “Managerial Accountability in the Western Balkans”, which is being prepared. The deadline for the implementation of this measure will be defined subsequently within the Action plan for 2019-2020, in line with the Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020. (Measure/activity 10.1)

11. Monitoring and reporting on the progress towards objectives linked to resource utilisation

As the key institution for amending the existing legislation which regulates the principles for the internal organisation of the public administration which will provide creation and/or designation of a special internal organisational unit which will be in charge of exercise of the functions of professional support and coordination in the preparation and implementation of strategic and operational plans in accordance with the defined objectives of the organisation and justified demands for resources, the Ministry of Public Administration and Local Self-Government has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure. The delay in drafting of regulations was conditioned by the need for a more

comprehensive solution which would also include the document produced by SIGMA and the European Commission's Directorate-General for Budget "Managerial Accountability in the Western Balkans", which is being prepared. The deadline for the implementation of this measure will be defined subsequently within the Action plan for 2019-2020, in line with the Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020. (Measure/activity 11.1)

14. Communicating accurate, relevant and timely information concerning financial and operational performance across and outside the organisation

As the key institution for amending the existing legislation which regulates the principles for the internal organisation of the public administration, which will provide creation/designation of a special internal organisational unit which will be in charge of the function of internal and external communications through the preparation of accurate, relevant and timely information regarding the financial and operational effects for the publication within and outside the organisation, the Ministry of Public Administration and Local Self-Government has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure. The delay in drafting of regulations was conditioned by the need for a more comprehensive solution which would also include the document produced by SIGMA and the European Commission's Directorate-General for Budget "Managerial Accountability in the Western Balkans", which is being prepared. The deadline for the implementation of this measure will be defined subsequently within the Action plan for 2019-2020, in line with the Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020. Also, on the basis of EU Sector budget support to the Republic of Serbia in the area of public administration and public finance reform, the complementary technical assistance was agreed on in the area of communication and visibility, whose implementation is delayed. On the basis of this support, the capacities for external and internal communication will be strengthened, and one of the special results foreseen by the Complementary support is drafting of a separate Communication Strategy of the Public Administration and Public Finance Reform. The deadline for the implementation of this measure will be defined subsequently within the Action plan for 2019-2020, in line with the Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020. (Measure/activity 14.1)

15. Develop professional skills of internal auditors

Meetings dedicated to the exchange of experiences of internal auditors from IPA beneficiaries, the Governmental Audit Office of EU Funds (Audit Authority) and the CHU are organised on a continuous basis. In November 2017, the training was held for internal auditors of IPA funds, on the topic of "New Internal Audit Standards", organised by the CHU, in cooperation with the Audit Authority and the Twinning project. (Measure/activity 15.1)

The basic concept of the rulebook on continuous professional development of internal auditors was drafted in late 2017. The concept was presented to public sector internal auditors for the purpose of obtaining the professional views and advice. In order to overcome the identified

obstacles, the cooperation needs to be established with the European Commission and SIGMA experts for achieving the widely-accepted solution. Once all the relevant views and suggestions are obtained, the Draft rulebook on continuous professional development of internal auditors will be prepared. (Measure 15.2)

18. Monitoring and reporting

Following the adoption of the Strategy, in July 2017, the minister of finance issued a decision on setting-up the Working group for public internal financial control, responsible for the monitoring and reporting on the implementation of the Action plan. The Working group is chaired by the assistant minister in charge of the Department for internal control and internal audit, and consists of the representatives of the State Audit Institution, Governmental Audit Office of EU Funds, Republic Public Policy Secretariat, European Integration Office, Ministry of Justice, Ministry of Interior, Ministry of Public Administration and Local Self-Government, Ministry of Culture and Information; Ministry of Defence, Ministry of Education, Science and Technological Development, Ministry of Trade, Tourism and Telecommunication, Ministry of Mining and Energy, Ministry of Economy, Ministry of Health, Ministry of Youth and Sport, Ministry of Agriculture and Environment Protection, Ministry of Foreign Affairs, Ministry of Labour, Employment, Veteran and Social Affairs, and Ministry of Construction, Transport and Infrastructure. The expert and technical-administrative support to the functioning of the Working group is provided by the Ministry of Finance the CHU. The last meeting of the Working group was held in February 2018 and the members reviewed the activities from the Action plan that were implemented during 2017, including the activities planned for the incoming period. (Measure/activity 18.1; 18.2)

Annual reporting to the Government on the activities implemented, results achieved and possible obstacles in the achievement of goals and measures will be carried out on the basis of the Consolidated annual report on the status of public internal financial control in the Republic of Serbia in 2017, adopted by the Government of the Republic of Serbia. (Measure/activity 18.3)

ACTION PLAN FOR THE PERIOD 2017-2018

STRENGTHENING THE ROLE OF THE MINISTRY OF FINANCE – THE CHU IN THE AREA OF COORDINATING, MONITORING, EDUCATING AND INFORMING THE MANAGERS AND EMPLOYEES INVOLVED IN THE PIFC PROCESS

	Objectives	No.	Measures / Activities	Deadline	Indicator	Key institution	Partner institutions	Activities implemented by 1 June 2018
1.	STRENGTHENING THE COORDINATION OF FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT ACTIVITIES BY THE CHU	1.1	Establishment of a working group within the Ministry of Finance to deal with the challenges of financial management and control and internal audit, led by CHU with the participation of the Treasury Administration, the Budget Department, the Department for contracting and financing of EU funded projects, the Department for EU funds management, the Department for Financial System, and the Department for Control of Public Funds	II quarter 2017	Established a working group	Ministry of Finance/ CHU	Other specified organisational units within the Ministry of Finance	Activity implemented. Established Working Group for internal financial control and internal audit responsible for the coordination of cross-sector approach to FMC and IA, within the Ministry of Finance. Decision on establishing the Working Group, no. 119-01-213/2017-09 of 30 May 2017
		1.2	Coordination of activities with the Treasury Administration, the Budget Department, the Department for contracting and financing of EU funded projects, the Department for the National Fund and the Budget inspection, concerning the development of methodologies of financial management and control	Continuously, starting from III quarter 2017	Reports / meeting notes	Ministry of Finance/ CHU	Other specified organisational units within the Ministry of Finance	Activity implemented. Working group meeting held in mid-January 2018

		1.3	The organisation of joint seminars with the Department for contracting and financing of EU funded projects and the Department for EU funds management, in order to exchange experiences in the field of development of financial management and control and internal audit in the use of EU pre-accession funds	At least once a year	Joint seminars	CHU, Department for contracting and financing of EU funded projects and the Department for EU funds management		Activity implemented in cooperation with Twinning project. Several workshops held with active participation of colleagues from the Department for contracting and financing of EU funded projects and the Department for EU funds management. In February 2018, the workshop was held on the topic of “Effective audit reports – Reporting and formulation of recommendations.”
		1.4	Cooperation with the State Audit Institution through a working group and coordination of the exchange of experiences	Continuously	Reports/ meeting notes	Ministry of Finance/ CHU	State Audit Institution	Cooperation with SAI on continuous basis through joint meetings and workshops. In July 2017, a joint conference was held on the topic of “Importance of internal control for efficient and effective public procurement”.

2.	CONTINUOUS DEVELOPMENT OF METHODOLOGICAL MANUALS AND GUIDELINES FOR INTERNAL AUDIT AND FINANCIAL MANAGEMENT AND CONTROL	2.1	Upgrading and updating the current methodological manuals and guidelines in line with international best practices and ensuring the appropriate visibility via the CHU website	Continuously, starting from II quarter 2017	Held internal meetings, thematic articles published on the website of CHU	Ministry of Finance/ CHU		Activity implemented. Risk management guidelines, updated FMC training material, adopted model of IA Charter, available on CHU web site
		2.2	Improved coordination between IAs managers, FMC coordinators, Treasury administration and SAI in upgrading methodological manuals and guidelines based on national operational practice	At least once a year	Meeting report	Ministry of Finance/ CHU	Treasury Administration, State Audit Institution and PFBs	Link to 1.4
3.	COORDINATION OF CONTINUOUS PROFESSIONAL DEVELOPMENT	3.1	Conducting a gap assessment with aim of improving the system of certification and professional development of internal auditors, through an outreach approach to include professional organisations and the academic community in training preparation and delivery	III quarter 2017	Gap Analysis and implementation plan	Ministry of Finance/ CHU	Professional and academic community, international organisations	Activity implemented. Within the UNDP project, international experts were hired to work on the improvement of the current certification system. Plan is to hire local experts for additional legal and technical alignment of proposed arrangements.
		3.2	Improving the professional knowledge of CHU employees through exposure to international best practices in the field of FMC and IA	Continuously	At least two seminars per year	CHU		Activity implemented. Participation at PEMPAL, PIC, ReSPA conferences and many other seminars and workshops.

4.	DEVELOPMENT AND IMPLEMENTATION OF IT SUPPORT TO PIFC	4.1	Improvement and redesign of CHU existing website, for more efficient promotion and greater penetration of PFBs	II quarter 2017	Redesigned CHU webpage	CHU	SDC/UNDP	Activity implemented. CHU web site was redesigned and improved. http://ifkj.mfin.gov.rs/WP/
		4.2	Implementation of e-learning platform that will serve for a better exchange of knowledge related to FMC and IA	IV quarter 2017	Uploaded materials for FMC and IA	CHU	SDC/UNDP	Activity implemented. FMC and IA materials were updated on e-learning platform, including the tests, made available to PFBs. http://ifkj.mfin.gov.rs/WP/index.php/materijal_1/
		4.3	Improvement of existing PIFC software, which will allow PFBs online access and electronic submission of annual reports to CHU, which will contribute to improving the quality of data used to prepare the consolidated annual reports of PIFC	I quarter 2018	Test phase report on reports submitted by central level PBS	CHU	SDC/UNDP	Activity implemented. The software underwent the testing phase. Video tutorial was produced to inform on how to use the software. Electronic reporting underwent test phase with participation of around 200 PFBs.
5.	MONITORING AND QUALITY CONTROL	5.1	Improve the content and quality of CHU consolidated annual reports on internal control submitted to the Government (linked with activity 4.3)	II quarter 2018	Consolidated annual report for 2017	CHU	Twinning partner	EC in its report on Serbia's progress in EU accession for 2017 notes the significant progress in the quality of reports in 2016. Link to activity 4.3
		5.2	Improving methodology for monitoring areas where the consolidated annual report identified weaknesses	II quarter 2019	Consolidated annual report for 2018	CHU		Deadline not expired yet.

6.	COORDINATION WITH OTHER MINISTRIES AND KEY PLAYERS	6.1	Establish a working group led by the CHU with the Ministry of Public Administration and Local Self-Government, the Ministry of Economy, Ministry of Justice and the Public Procurement Office, to deal with the coordination of financial management and control and internal audit regarding reforms in the public sector in Serbia through cross-sector strategies	II quarter 2017	A working group established	CHU	Ministry of Public Administration and Local Self-Government, the Ministry of Economy, Ministry of Justice and the Public Procurement Office	The process of establishing the sub-group in the PAR reform Council underway, due to additional coordination in selecting the group members.
7.	PROMOTE THE IMPORTANCE OF PIFC REFORM	7.1	Organize a high level kick-off event, launching the new PIFC Strategy	60 days after Strategy is adopted by Government	Attendance list, media coverage report	Ministry of Finance/ CHU	EU, Managers of PFBs	Activity implemented. Conference held in early October 2017.
		7.2	Promote the importance PIFC reforms through relevant media channels on regular basis	Continuously	Media reports and promotion materials	CHU		Continuous promotion of PIFC importance through relevant media channels, primarily on the web sites of Ministry of Finance and the CHU.

RAISING AWARENESS OF FINANCIAL MANAGEMENT AND CONTROL AS AN INTEGRAL PART OF THE MANAGEMENT PROCESS WITH AN EMPHASIS ON MANAGERIAL ACCOUNTABILITY, RISK MANAGEMENT AND QUALITY REVIEW

	Objectives	No.	Measures / Activities	Deadline	Indicator	Key institution	Partner institutions	Activities implemented by 1 June 2018
8.	PROVIDE SUPPORT TO ALL MANAGERS OF PUBLIC FUND BENEFICIARIES FOR SUBSTANTIAL UNDERSTANDING OF THE SIGNIFICANCE OF FINANCIAL MANAGEMENT AND CONTROL ACTIVITIES AS AN INTEGRAL PART OF STRATEGIC AND OPERATIONAL PROCESSES WITH EMPHASIS ON MANAGERIAL ACCOUNTABILITY	8.1	Improving the content and form of CHU questionnaires in order to enhance the quality of analytical data submitted by PFBs	I quarter 2018	Upgraded CHU questionnaires	CHU		In cooperation with SIGMA experts, the CHU improved its self-assessment questionnaire for FMC and IA, and an in-depth analysis is expected in the 2017 report
		8.2	Develop guidelines on the managerial accountability of managers explaining the role of individual participants in the financial management and control (PFB managers, heads of groups, sections, departments, etc.)	IV quarter 2017	Guidelines for improving accountability in public sector	CHU		Activity implemented. Produced Guidelines on Managerial Accountability, available on the CHU web site.
		8.3	Develop a model for FMC practical application, which will be available to PFBs for download via e-learning platform on CHU website	IV quarter 2018	Model for FMC practical application	CHU	Twinning partner	Deadline not expired yet.
		8.4	Organize workshops for senior managers on the role of financial management and control	Continuously, starting from III quarter 2017	At least two workshops per year	CHU	PFBs, Twinning partner	Several workshops organised in cooperation with Twinning project. Reports and documents available upon request.
		8.5	Conduct an analysis of the application of IC standards in a number of PFBs in relation to the adopted FMC policy documents	IV quarter 2018	Analysis	CHU	Twinning partner	Deadline not expired yet.
		8.6	Amend FMC Rules and the Manual, to align the managerial accountability term with the principles of good governance and introduce irregularities management function in the FMC framework	IV quarter 2017	Amended FMC Rules and the FMC Manual	CHU		Deadline not expired yet.
		8.7	Update and redesign all FMC training materials in line with amended FMC and IA regulations	I quarter 2018	Updated and redesigned all FMC training materials	CHU		Deadline not expired yet.

9.	STRATEGIC PLANNING THAT LINKS ORGANISATIONAL OBJECTIVES TO THE GOVERNMENT'S OVERALL VISION	9.1	Adoption of the regulation governing the management methodology of public policy, analyzing the effects of public policies and regulations and the content of the individual policy documents	IV quarter 2017	Adopted regulation	Ministry of Public Administration and Local Self-Government	Republic Public Policy Secretariat	The Law on the Planning System of the Republic of Serbia was adopted ("Official Gazette of RS, no. 30/18) which governs methodology of public finance management, analysis of effects of public policies and regulations and the contents of individual public policy documents.
		9.2	Adoption of the regulation governing the methodology for developing the medium-term (strategic) plans	IV quarter 2017	Adopted regulation	Ministry of Public Administration and Local Self-Government	Republic Public Policy Secretariat	The regulations on drafting the methodology for the development of medium-term (strategic) plans will be adopted in accordance with the deadlines laid down by the Law. Link to activity 9.1
10.	OPERATIONAL PLANNING THAT LINKS OPERATIONAL OBJECTIVES TO RESOURCE REQUIREMENTS (BUDGETARY, PERSONNEL AND OTHER ASSETS)	10.1	The amendment of the existing Regulation which regulates the principles for the internal organisation of the public administration will provide creation of a special internal organisational unit which will be in charge of exercise of the functions of professional support and coordination in the preparation and implementation of strategic and operational plans in accordance with the defined objectives of the organisation and justified demands for resources	IV quarter 2017	Amended regulation	Ministry of Public Administration and Local Self-Government		MPALSG, as the key institution for this activity has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure.
11.	MONITORING AND REPORTING PROGRESS TOWARDS OBJECTIVES LINKED TO RESOURCE UTILIZATION	11.1	The amendment of the existing Regulation which regulates the principles for the internal organisation of the public administration will provide creation of a special internal organisational unit which will be in charge of monitoring and reporting on the degree of achievement of defined objectives in relation to the resources used.	IV quarter 2017	Amended regulation	Ministry of Public Administration and Local Self-Government		MPALSG, as the key institution for this activity has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure.
12.	DEVELOP RISK MANAGEMENT PROCESS AT PFBs	12.1	CHU should update the existing guidelines for the implementation of risk management at PFBs	II quarter 2018	Updated the existing guidelines for the implementation of risk management at PFBs	CHU	Twinning partner	Deadline not expired yet.

		12.2	Through e-learning platform CHU should provide for the downloading of the risk management model, to facilitate practical implementation by the PFBs	III quarter 2018	Risk management model	CHU	Twinning partner	Deadline not expired yet.
13.	DEVELOP QUALITY ASSESSMENT MODEL FOR FINANCIAL MANAGEMENT AND CONTROL	13.1	Introduce annual statement on internal control by the head of PFB	IV quarter 2018	Annual statement of internal control introduced	CHU		Deadline not expired yet.
14.	COMMUNICATING ACCURATE, RELEVANT AND TIMELY INFORMATION CONCERNING FINANCIAL AND OPERATIONAL PERFORMANCE ACROSS AND OUTSIDE THE ORGANISATION	14.1	The amendment of the existing Regulation which regulates the principles for the internal organisation of the public administration will provide creation of a special internal organisational unit which will be in charge of the function of internal and external communications through the preparation of accurate, relevant and timely information regarding the financial and operational effects for the publication within and outside the organisation.	IV quarter 2017	Amended regulation	Ministry of Public Administration and Local Self-Government		MPALSG, as the key institution for this activity has initiated the procedure for drafting of a new Action plan for the implementation of the Public Administration Reform Strategy for 2018-2020, which is a basis for the implementation of this measure.

STRENGTHENING INTERNAL AUDIT IN TERMS OF PROFESSIONALISM AND SCOPE OF ACTIVITIES, EFFICIENT UTILISATION OF AVAILABLE RESOURCES AND THE QUALITY REVIEW SYSTEM

	Objectives	No.	Measures / Activities	Deadline	Indicator	Key institution	Partner institutions	Activities implemented by 1 June 2018
15.	DEVELOP PROFESSIONAL SKILLS OF INTERNAL AUDITORS	15.1	Organise meetings to exchange experiences of internal auditors from the IPA beneficiary institutions, the Audit Authority Office of EU Funds and CHU	Once a year	Meeting notes	Ministry of Finance/ CHU	IPA beneficiary institutions, the Audit Authority Office of EU Funds	Activity implemented. In November 2017, a training for internal auditors of IPA funds was held, on the topic of “New Internal Audit Standards”, in cooperation with Audit Authority and Twinning project.
		15.2	Define continuous professional development of internal auditors by a regulation	IV quarter 2017	Rules on continuous professional development of internal auditors	Ministry of Finance/ CHU		The CHU drafted the basic concept of the rulebook on continuous professional development of internal auditors in late 2017. Once all the relevant views and suggestions of all relevant parties are obtained, the Draft rulebook on continuous professional development of internal auditors will be prepared.
		15.3	Update and redesign training materials necessary for the implementation of the updated manual for internal audit	30 days after updating manuals for internal audit	Updated and redesigned IA training materials	Ministry of Finance/ CHU		Deadline not expired yet.

16.	DEVELOP QUALITY ASSESSMENT MODEL FOR INTERNAL AUDITORS PERFORMANCE	16.1	Regulate external quality assessment of PFB internal audit by a regulation	III quarter 2018	Rules on the external quality control of internal audit	Ministry of Finance/ CHU	Twinning partner	Deadline not expired yet.
		16.2	Develop a model for internal quality assessment of internal audit to be used by internal audit units, which will be prepared by CHU, and guidelines for IA quality assurance for heads of internal audit units	I quarter 2018	Developed a model for internal quality assessment of internal audit and guidelines for IA quality assurance for heads of internal audit units	Ministry of Finance/ CHU	Twinning partner	Deadline not expired yet.
17.	ESTABLISH MINIMUM CRITERIA FOR THE ORGANISATION OF JOINT INTERNAL AUDIT FOR PFBs; FROM A CERTAIN TERRITORY, FOR THE SAME OR SIMILAR ACTIVITIES, AND FOR SMALL PFBs	17.1	Develop guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units	IV quarter 2018	Developed guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units	Ministry of Finance/ CHU	PFBs, Twinning partner	Deadline not expired yet.

MONITORING OF STRATEGY IMPLEMENTATION

	Objectives	No.	Measures / Activities	Deadline	Indicator	Key institution	Partner Institutions	Activities implemented by 1 June 2018
18.	MONITORING AND REPORTING	18.1	Establish a PIFC working group composed of PFB representatives	30 days after the adoption of the Strategy	Established a PIFC working group composed of PFC representatives	PFBs and CHU		Activity implemented. PIFC Working group established. Decision on establishing the Working group, no. 119-01-2010/2017-09 of 26 May 2017
		18.2	Monitor the implementation of the strategy and fulfilment of objectives, measures and activities envisaged by the Action Plan	Meetings, at least twice a year	Meeting reports	PIFC working group and CHU		The meeting was held in February 2018
		18.3	Annual reporting to the Government on the implemented activities, achieved results and possible difficulties in the implementation of the objectives and measures	Once a year within the Consolidated annual reports on internal control	Consolidated annual reports on internal control	CHU		All the planned activities will be covered by the Consolidated annual report for 2017, adopted by the Government of RS.