



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

**CONSOLIDATED ANNUAL REPORT ON THE
STATUS OF PUBLIC INTERNAL FINANCIAL CONTROL IN
THE REPUBLIC OF SERBIA IN 2023**

Belgrade, July 2024

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List of Abbreviations

AP – Action plan for the establishment and development of a financial management and control system

APV – Autonomous Province of Vojvodina

AP K&M – Autonomous Province of Kosovo and Metohija

BSL – Budget System Law

CAR – The Government adopted the Consolidated Annual Report on the status of public internal financial control in the Republic of Serbia

Certification Rulebook – Rulebook on Conditions, Manner and Procedure for Taking an Exam and Obtaining a Title of Certified Internal Auditor in the Public Sector

CHU - Central Harmonisation Unit

CIA – Certified Internal Auditor(s)

COSO – Committee of Sponsoring Organisations of the Treadway Commission

DBBs – Direct Budget Beneficiaries

EC – European Commission

EU - European Union

FMC - Financial Management Control

FMC Manual – Manual on Financial Management and Control

FMC Report - Annual Report on Financial Management and Control System

FMC Rulebook – Rulebook on Joint Criteria and Standards for Establishment, Functioning and Reporting on the System of financial system and control in public sector

GenSec – General Secretariat of the Government of the Republic of Serbia

GIZ – *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*

HRMS - Human Resources Management Service

IA – Internal Audit

IA Report – Annual Report on Audits and IA Activities

IA Rulebook – Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and

Reporting by the Internal Audit in the Public Sector

IBBs – Indirect Budget Beneficiaries

IIA – Institute of Internal Auditors (*IIA*)

INTOSAI – International organisation of Supreme Audit Institutions (*INTOSAI*)

IPA – Instrument for Pre-Accession Assistance

ISO – International Organisation for Standardisation (*ISO*)

IT – Information technologies

LPS – Law on Planning System

LSGs – Local Self-Governments

MAFWM – Ministry of Agriculture, Forestry and Water Management

MoI - Ministry of the Interior

MoF – Ministry of Finance

MPALG – Ministry of Public Administration and Local Government

NAPA – National Academy of Public Administration

NEA – National Employment Agency

OMSIs – Organisations of Mandatory Social Insurance

PAR - Public Administration Reform

PE – Public Enterprises

PIFC – Public Internal Financial Control (*PIFC*)

PFBs – Public Fund Beneficiaries

PFMRP – Public Financial Management Reform Programme for the Period 2021-2025

PPS - Public Policy Secretariat of the Republic of Serbia

PUC – Public Utility Company

RELOF 2 Project – Local Government Finance Reform (*RELOF*)

RHIF - Republic Health Insurance Fund

Rulebook on Professional Development – Rulebook on Professional Development of Internal Auditors in the Public Sector

RS - Republic of Serbia

SAI – State Audit Institution

SCTM - Standing Conference of Towns and Municipalities

SIFMP – Social Insurance Fund for Military Personnel

SIGMA – *Support for Improvement in Governance and Management (joint*

initiative of the OECD and the European Union)

UNDP – *United Nations Development Programme (UNDP)*

WG – Working Group

SUMMARY

The consolidated annual report on the state of play of the PIFC presents a comprehensive and detailed analysis of the state of play in this area, with the aim of highlighting both the strengths and weaknesses of the system. Its purpose is also to provide recommendations for improving the system.

This report also contains information on the activities of the CHU during the reporting period. In addition, the recommendations in the Annual Progress Reports of the European Commission for the RS in the EU accession process and the results achieved, i.e. the realisation of the goals in the relevant planning documents, are followed.

The consolidated annual report is primarily based on the individual annual reports on the FMC system and the annual reports on audits and IA activities carried out, which are submitted by the PFBs. The form of the FMC report remained unchanged, which enabled appropriate identification of changes and monitoring of the implementation of the recommendations from the previous CAR. The IA form is technically compliant with the amendments to the IA regulations that came into force during the reporting period. It also streamlines the completion of the IA report by the PFBs by tailoring the questions to align with the modality of the establishment of the IA function. This year, a special form of a standardised report on the FMC and IA system was created for school institutions, tailored to their specifics.

The FMC reporting rate has continued its upward trend. A total of 3,779 FMC reports were submitted (including school organisations). The most important institutions in the RS public sector submitted the FMC report in most cases. The high volume of the reports provides a basis for relevant conclusions about the status of the FMC system in the public sector of RS.

The results suggest that there is growth in most of the indicators describing the FMC system in the RS public sector. In the area of the organisational structure of the FMC system, the number of PFBs with adopted risk management strategies, created risk registers and created maps of business processes has increased significantly. The results relating to the principles and elements of the COSO framework are also increasing slightly. The area of control activities in particular has improved. The monitoring of the implementation of the recommendations from the previous CAR in relation to FMC also shows that these are largely being implemented. On the other hand, some weaknesses were also identified, particularly in the areas of personnel management and the elimination of identified deficiencies in the internal control system.

Overall, progress has been made in the area of IA when it comes to the number of PFBs that have an established IA function and the number of employees working in internal auditing. On the other hand, the number of internal auditors in ministries and established IA units has generally decreased.

The CAR provides general recommendations for addressing the major weaknesses identified in the FMC and IA system. In addition, individual recommendations were made, addressed to the priority institutions of the RS public sector, which should lead by example in terms of the maturity of the FMC and IA system.

I INTRODUCTION

1.1 Purpose and Objective

The Consolidated Annual Report on the Status of Public Sector Internal Financial Control is prepared to present to the Government of RS and the public information on the activities carried out by the PFBs and the results achieved in the process of establishing, developing and strengthening the FMC system and the IA function. The aim of this report is to highlight both the good points and the shortcomings of the PIFC system, while proposing recommendations for its further development and improvement.

1.2 Method and Methodology of the Preparation of CAR

In accordance with Article 83 of the Budget System Law¹, the CHU, as an organisational unit within the MoF, has prepared the CAR by summarising the individual annual reports on the FMC system and the annual reports on audits and IA activities submitted by PFBs. The individual reports are submitted electronically via the CHU application. PFBs managers are required to submit a signed Statement on Internal Controls, which is an integral part of the CAR report and is prepared based on it.

In accordance with the statutes (IA Rulebook and FMC Rulebook), the CHU has prepared appropriate reporting forms, which take the form of questionnaires.

The FMC report, in addition to the sections relating to the organisational set-up of the system and the self-assessment of the application of the principles and elements of the COSO framework, also contains sections dealing with irregularity management issues and recommendations of the CAR for the past year.

The form of the FMC report remained unchanged from last year. As last year, for each of the 17 principles (within the 5 elements of the FMC system), the requirements describing the functioning of the organisation in accordance with the specific principle of the COSO framework were listed. The requirements listed are largely generic, i.e. they can be applied to any organisation to a greater or lesser extent, regardless of the activity and other specifics. The fulfilment of all requirements describes the "ideal" FMC system. Of course, the meaning of certain requirements may vary according to the characteristics and needs of each individual organisation. The requirements are formulated in the form of statements to be ticked (agree/confirm) if they apply to a particular organisation.

Finally, based on the responses to the statements illustrating each principle, and taking into account the characteristics and needs of its own organisation, the PFBs head gives his or her

¹ "Official Gazette of the RS", no. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013-corrigendum, 108/2013, 142/2014, 68/2015-д other law, 103/2015, 99/2016, 113/2017, 95/2018, 31/2019, 72/2019, 149/2020, 118/21, 118/21 - other law and 92/2023

assessment (from 1 - NO to 5 - YES) of the extent to which the organisation he/she manages adequately meets the requirements, i.e. observes the stated principle.

An integral part of the FMC report is the Statement on Internal Controls.² The head of the PFBs signs one of two versions of the Statement, depending on whether specific weaknesses in the FMC system have been identified and whether or not these weaknesses have an impact on the organisation's operations.

The FMC reporting form was created with the aim of being much more intuitive and practical, i.e. easier to understand and more useful as a tool for managing the internal control system. PFBs can use it as a checklist to determine the status of the FMC, identify weaknesses and then make decisions on the activities to be undertaken to improve the system. The list of elements that make up the FMC report can be found in [Annex 2 - Status indicators of the FMC system](#).

As of this year, a special form for FMC and IA activities has been introduced, tailored to primary and secondary education institutions (hereinafter: school institutions). The essence of the new form is that certain questions are adapted to the specificities of these institutions, with the FMC part designed in the same way as the FMC for other PFBs and the IA covering only the necessary parts related to school institutions.

The concept of the new IA report form for 2023 has been changed compared to last year's, while the core has remained the same. The changes to the IA report have resulted in simpler reporting of IA activities. The most important change in this year's IA report, which allows for more transparent reporting, is the qualification question introduced in section 3. The qualification question is formulated in such a way that everyone answers the part that relates to their organisation. The question in section 3 consists of 6 options. If you select one of the options, only the sections that are relevant to you will be opened, allowing for easier and more transparent reporting. More detailed information on internal audit can be found in Section [2.2 Internal audit](#).

To facilitate monitoring of the data listed in CAR, the PFBs have been categorised in the manner shown in Table 1.

Table 1. PFBs categorisation

Level	PFB category	PFBs
Central Level	Ministries with administrative bodies in the composition	Ministries, administrations, directorates and supervisory bodies within ministries.
	Organisation of Mandatory Social Insurance (OMSI)	RHIF, SIFMP, Republic Pension fund and NEA.
	Direct budget beneficiaries (other DBBs - excluding ministries and administrative bodies in their composition)	The National Assembly of the RS and its services, departments and offices of the Government of the RS, specialised agencies, autonomous and independent state bodies, judicial

² More about the statement on internal controls in section [2.1.6 Statement on Internal Controls](#)

Level	PFB category	PFBs
		authorities that are DBBs, administrative districts...
	Indirect budget beneficiaries (IDBs)	Schools, universities, judicial authorities other than the DBBs, centres for social work, cultural institutions.
	Public Enterprises (PEs)	PEs and other legal entities carrying out activities of general interest and to which the law on PEs applies and Water Management Company.
	Other PFBs (excluding PEs)	Public bodies, organisations and legal entities performing entrusted, developmental, professional and regulatory tasks of general interest, and other legal entities over which RS exercises direct or indirect control (excluding PEs).
	Beneficiaries of RHIF	Healthcare and pharmaceutical institutions
Local level	DPFBs	Local government agencies and services (provinces and LSGs)
	IBBs	Cultural institutions, pre-school institutions, local communities...
	Other PFBs	PUC and other legal entities over which AP or LSGs exercise direct or indirect control.

The categorisation presented is based on the typology of the PFBs list published by the Treasury Administration of the MoF³, and also takes into account the requirements of EC from Chapter 32 - Financial Control⁴. Taking into account the particular importance of ministries and administrative bodies in their composition, i.e. PEs at central level⁵, the above categories are listed separately.

Most indicators for 2023 are presented by the listed categories of the PFBs. In the part related to the FMC system, the results for “priority PFBs” are also listed separately⁶.

As far as the organisational set-up of the FMC system is concerned, the changes compared to the previous year are shown by analysing the results of those PFBs that submitted reports for both 2022 and 2023. When it comes to reporting by school organisations, and as the form of

³ Please refer to the Rulebook on the procedure for determining and keeping records on public funds beneficiaries and the terms and conditions for opening and closing subaccounts in the consolidated treasury account of the Treasury Administration (“Official Gazette of the RS”, nos. 11/2023 and 84/2023).

⁴ Negotiation Chapter 32 - Financial Supervision covers four main areas: PIFC, external audit, protection of the EU's financial interests and protection of the euro against counterfeiting.

⁵ From 2023, water management companies will be monitored in the same way as the existing PE at central level.

⁶ The category of “priority” PFBs is defined as a group of ministries, OMSI, JEs and cities when presenting the situation of FMC for the purposes of this report.

the report itself is different, a direct comparison with the previous year's results listed in CAR is not applicable.

The submitted annual reports, both individually and in their entirety, provide an information basis for the management of the internal control systems at the micro and macro levels. Considering that the results are based on self-assessment, the objectivity of the indicators should be viewed with a reservation.

In addition, the CAR also contains information on the monitoring of the recommendations in the annual EC Progress Report for Serbia and the results achieved, as well as on the monitoring of the recommendations in the CAR for the previous year with reference to the implementation of the objectives in the relevant planning documents.

II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

The BSL defines the PIFC as a comprehensive system of measures for the management and control of public revenues, expenditures, assets and liabilities established by the government through public sector organisations. The objective of PIFC is to ensure that the management and control of public funds, including foreign funds, is carried out in accordance with the regulations, the budget and the principles of good financial management, which include economy, efficiency, effectiveness and openness.

The PIFC in the public sector comprises three basic elements:

1. financial management and control;
2. internal audit; and
3. Central Unit for Harmonisation of financial management and control and internal audit.

The PIFC system is primarily based on managerial accountability, which is defined in the BSL as: the obligation of managers at all levels of the PFBs to carry out all work lawfully, observing the principles of economy, efficiency, effectiveness and publicity, and to be accountable for their decisions, actions and results to the person who appointed or delegated responsibility to them.

The existing legal framework in the RS is based on international internal control standards. The FMC Rulebook states that the elements of the FMC system are aligned with the International Standards on Internal Control (by the INTOSAI), which includes the concept of the COSO framework. The IA regulations also stipulate the obligation to apply the international standards from IA⁷. The regulation prescribing the PIFC's scope is listed in [Annex 1 - Legal Framework and International Standards](#).

It should also be noted that the implementation of the PIFC is a benchmark for the conclusion of Negotiating Chapter 32 - Financial Control.

⁷ Institute of Internal Auditors (IIA) International Standards for the Professional Practise of Internal Auditing

2.1 Financial Management and Control

2.1.1 Concept and Definition

The FMC is a system of policies, procedures and activities established, maintained and regularly updated by PFBs management that ensures that PFBs' objectives are properly, economically, efficiently and effectively achieved by managing risks to an appropriate degree.

The FMC system consists of the following interrelated elements:

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

2.1.2 Scope of Submitted Reports

The FMC report for 2023 was submitted by 3779 PFBs. Of this number, 1590 reports were submitted by educational institutions and 2189 by other PFBs. The high reporting rate registered last year (3416 PFBs) has increased further.

The analysis of the submitted reports showed that 75% of the school institutions submitted the FMC report with an electronic signature, while the remaining 25% submitted the report by post. Of the FMC reports submitted by other PFBs, 61% submitted the report with an electronic signature, while the remaining 39% submitted the report by post.

Figure 1. FMC reports submitted by electronic signature and by post

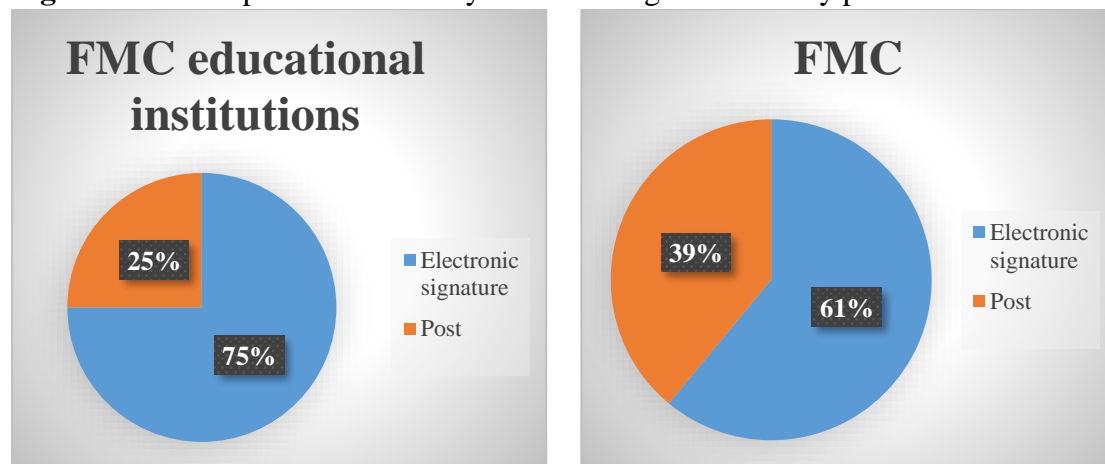


Figure 2. Number of processed FMC reports submitted by PFBs by reporting year

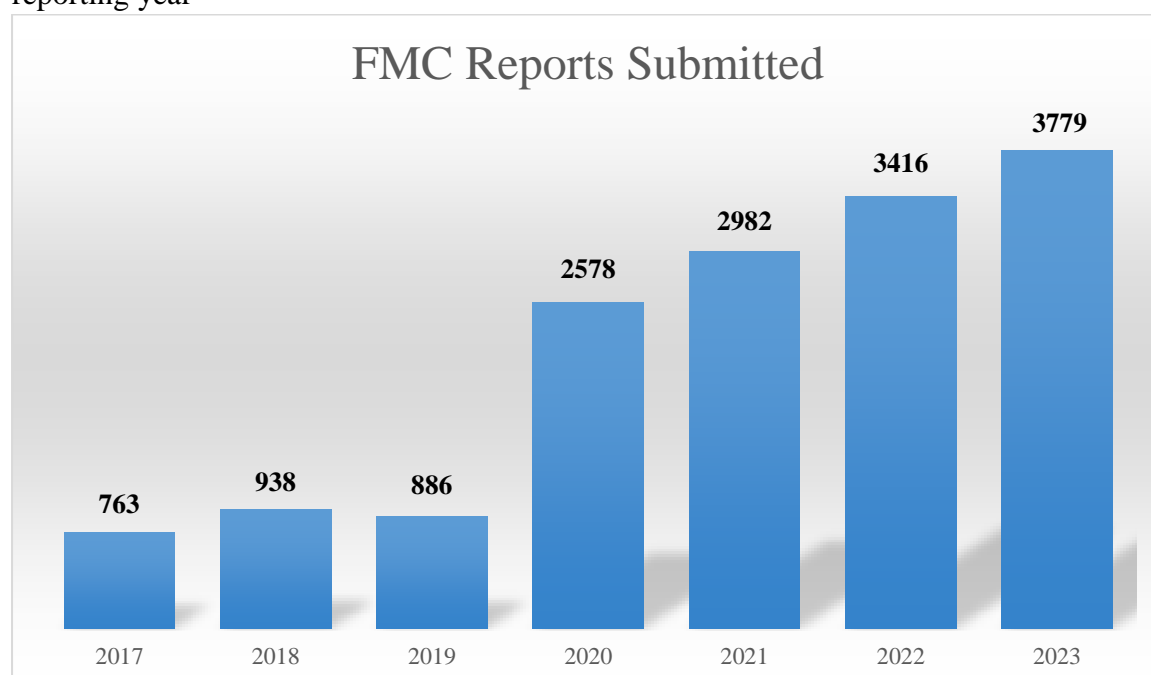


Table 2. Reporting rates of key PFBs for 2023

Public Funds Beneficiaries (PFBs)	Number of PFBs that submitted reports	Reporting rate
Ministries	25	100%
OMSIs	4	100%
Independent and autonomous state authorities	8	100%
Government services, offices and special organisations	31	91.18%
Judicial authorities (DBB of the RS)	10	100%
PE at the central level of the RS	43	91.49%
Institutions of the AP Vojvodina	24	96%
Cities/Towns	28	100%
Municipalities	109	93.16%

The total expenditure and costs of all DBBs at the RS level (ministries with administrative bodies in the composition, judicial bodies, directorates, offices, agencies, institutes, services...) included in the CAR for 2023 account for 99.92% of the total expenditure and expenses of the RS budget for 2023.

The cities that submitted the FMC report manage 100% of the total realised expenditure of the city budget, and the municipalities that submitted the FMC report manage 93.84% of the total realised expenditure of the municipal budget. The PEs at the central level of the RS, which submitted the FMC report, manage 99.93% of the total revenues of the PE categories. Other PFBs at the local level (PEs/PUCs) that submitted the FMC report manage 88.50% of the total

revenue of the mentioned category The institutions of AP Vojvodina that submitted the FMC report manage 99.97% of the total provincial budget.

Considered as a separate category, 96.15% of the priority PFBs submitted reports.

The remaining PBSs that submitted the FMC report are relatively smaller organisations with low budgets or a small number of staff, and their importance for the overview of the PIFC system in the RS is relatively less.

From the above data, it can be concluded that the main public sector organisations of the RS have submitted their FMC report in most cases. The high volume of the reports provides a basis for relevant conclusions about the status of the FMC system in the public sector of RS.

2.1.3 Establishment of the FMC system

Elements of Establishment and Development of the FMC System

The FMC system consists of the organisational set-up, implementation and development based on the activity plan adopted by the PFBs.

The organisational set-up of the FMC system includes the following activities as a first step:

- appointment of the head responsible for FMC;
- the establishment of the WG to deal with the introduction and development of the FMC system.

The organisational set-up of the FMC system depends on the size, number of staff and other specifics of the PFBs. When setting up the system, it is first necessary to appoint a FMC officer and/or establish WG, which will deal with all important issues related to the introduction and development of the system. The purpose of setting up WG is to harmonise individual activities in all organisational units, harmonise opinions and positions regarding the description of business processes, the determination and assessment of risks, and the establishment of controls. It is desirable that the WG consists of senior management and experts with knowledge and experience in the key areas of the PFB's work, i.e. people who are well acquainted with business procedures and specific business processes within the organisation. WG is responsible to the manager for assisting in the implementation and development of the FMC system.

Further implementation and development of the FMC system includes the following steps:

- AP preparation;
- adoption of a risk management strategy;
- definition of the mission statement, vision statement and main goals of the PFBs;
- listing the main processes (sub-processes) and describing the activities within these processes;
- mapping of business processes;

- documenting business processes and creating flowcharts;
- Determining the risks at level of the business process, assessing risks and their ranking, deciding how to respond to risks, i.e. establishing controls (risk management);
- assessing the elements of internal control;
- compiling an overview of the controls in place, taking into account the main risks;
- listing of key processes that are not defined in writing;
- analysis of existing and required controls and decision on necessary prior and subsequent controls;
- adopting a plan to establish necessary controls and eliminate unnecessary controls;
- monitoring the implementation of the plan;
- preparing an annual report on the establishment and updating/development of the FMC system.

Although in this section of the report we deal with the documentation elements of the establishment and implementation of the FMC system, we note that it is the PFB's FMC report, with the corresponding Statement on Internal Controls, which is submitted to the CHU and AP to address the weaknesses identified, that represents an important step in the further development of an organisation's FMC system.

Assessment of the Elements for Setting up the System

In the segment of the annual report that relates to setting up the FMC system, beneficiaries enter data concerning the following: appointment of the person in charge of the FMC, establishment of WG, which deals with issues related to the establishment and development of the system, adoption of APs, mapping of business processes, adoption of a risk management strategy, participation in training in the field of PIFC, etc.

[Annex 2 - Indicators of the status of the FMC system, within Table 1](#), provides data relating to the establishment of the FMC system, observed per PFB categories. The data in this table reveals the following: 74.34% of all PFBs that submitted annual reports appointed a FMC manager, while 71.92% established a WG for the introduction and development of the FMC system. Although the percentages of responses to these questions are increasing, they are still better at the local level (75.84% and 73.71% for the head of FMC and WG respectively) than at the central level (72.81% and 70.08%). The growth of the indicators in this segment of the establishment of the FMC system is still noticeable. In the IBB category at central level, the figure is 75.65% for FMC managers and 73.43% for established WGs, although the change in methodological approach means that school institutions are excluded from this category, which has an impact on the overall result. The group of IBBs at the central level that regularly submit their reports recorded a 4.29% growth (FMC manager appointed) and 6.29% (WG founded).

In the OMSI category, it was also confirmed in this reporting period that all organisations have a manager and a working group for FMC. The percentage of PEs at central level is lower compared to last year (86.05% and 83.72%). The ministries with administrative bodies in the composition have a slight decrease in the question of appointing managers for FMC (83.67%), while the percentage of establishing working groups with the task of setting up the FMC system is better (79.59%). Other central level DBBs answer these questions similarly to last year (65.38% for both questions), while recipients of RHIF achieve better percentages (60.76% and 56.12%), in line with the recommendation of the previous CAR. For DBBs at the local level, a

FMC manager has been appointed in 83.61% of cases and a WG for FMC in 86.34% of cases, compared to 82.02% and 84.86% for local PUCs, respectively.

The AP was implemented in 65.11% of all PFBs, i.e. 63.41% at central level and 66.79% at local level. All OMSIs (100%) adopted the AP, while the ministries with administrative bodies in their composition rated this issue significantly higher (63.27%), as did the PEs at central level (83.72%). In order for the organisations to make proper use of this tool, we remind that it is necessary to update and improve the system according to plan, even after the activities related to its establishment have been completed. The percentage of responses from DBBs (68.85%) and PUCs (74.76%) at local level regarding the implementation of AP is stable.

A significantly higher percentage of PFBs of 60.23% (central level - 58.04%, local level - 62.34%) have created maps of business processes in 2023. The categories of PEs at central level with 86.05%, PUC at local level with 74.76%, i.e. local self-government bodies with 80.33% have satisfactory indicators, while OMSI, as well as with the largest number of questions, stands out with the maximum of 100%. Ministries with administrative bodies in their composition achieved a significant growth of 23.33%, considering that 78.72% of the members of this category of subjects reporting regularly answered in the affirmative to the question about the preparation of maps of business processes, and 77.55% in the total percentage of the category. The number of recipients of RHIF who have created maps of business processes is still not satisfactory (44.30%).

A risk management strategy was adopted by 68.58% (69.05% at central and 68.21% at local level), and a risk register was created by 56.67% of PFBs (54.84% at central and 58.44% at local level). By introducing a methodical approach to risk management and creating an important tool for good management in the form of a register, OMSIs are an excellent example for organisations (100% in both cases). The situation is unsatisfactory for the other DBBs at the central level (51.28% and 47.44%), while the IBBs have improved their percentages (68.45% and 54.24%). Continuous progress can be seen in the category of ministries with administrative bodies (73.47% and 75.51%), while the situation at PEs is stable compared to the previous reporting period (88.37% and 79.07%). At local level, 88.52% and 75.96% of local self-governing bodies (DBBs at local level) have implemented a risk management strategy, i.e. created a risk register. Looking at all PFBs that have submitted the FMC report for 2023 (PFBs that are just starting the process of setting up the system and reporting usually have lower values and thus influence the overall percentage), there is a constant increase in those that have adopted a risk management strategy (68.58% instead of 55.39%), i.e. have created a risk register (56.67% instead of 43.62%).

Article 21a of the Decree on principles for internal organisation and systematization of workplaces in ministries, special organisations and government services⁸ prescribes the obligation for ministries, bodies within ministries and special organisations to designate an internal unit for planning documents and management support. In 2023, 48.00% ministries, 37.50% of administrative bodies and 55.56% of special organisations, i.e. 46.27% of these organisations fulfilled this obligation.

⁸ Regulation on the principles of the staff establishment and internal regulation in ministries, special organisations and government services ("Official Gazette of the RS", no. 81 of 4 September 2007 - revised text, No. 69 of 18 July 2008, No. 98 of 12 October 2012, No. 87 of 4 October 2013, No. 2 of 16 January 2019, and No. 24 of 19 March 2021)

The share of IBBs in the total percentage of PFBs reporting on the state of the FMC is extremely high, and this category regularly records weaker results on average compared to other categories of PFBs. It is again in this category that the greatest progress can be seen, as these organisations are gradually approaching the level of PFBs with good grades through the identification of resources and the implementation of AP.

Introduction of the FMC System at Organisational Level in Priority PFBs

Ministries, OMSIs, PEs and local self-government authorities at the city level have a special responsibility in establishing and developing the FMC system, considering their budgets and overall capacities, i.e. their greater importance and overall influence on the RS flows. Ministries and cities are also expected to initiate and concretely support the process of FMC and IBBs system development in their area of responsibility, as the group of PFBs just mentioned faces the greatest challenges in this area, mainly due to limited internal capacities.

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

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

b) Considering the importance of ministries, they are required to meet somewhat higher standards than the other PFB categories. With this in view, the situation can be described as unsatisfactory, as presented in the Table 3.

Table 3. The parameters of establishment of the FMC system in Serbia

Ministries	Risk Management Strategy	Risk register	Business Process Maps
Ministry of Finance	✓	✓	✓
Ministry of Economy	✓	✓	✓
Ministry of Environmental Protection	✓	✓	✓
Ministry of Construction, Transportation and Infrastructure	✓	✓	✓
Ministry of Mining and Energy	✓	✓	✓
Ministry of Justice	✓	✓	✓
Ministry of Public Administration and Local Self-Government	✓	✓	✓
Ministry of the Interior	✓	✓	✓
Ministry of Defence	✓	✓	✓
Ministry of European Integration	✓	✓	✓
Ministry of Health	✓	✓	✓
Ministry of Labour, Employment, Veteran and Social Affairs	✓	✓	✓
Ministry of Sports	✓	✓	✓
Ministry of Rural Welfare	✓	✓	✓

Ministry of Tourism and Youth	✓	✓	✓
Ministry of Information and Telecommunications	✓	✓	✓
Ministry of Agriculture, Forestry and Water Management	✗	✗	✓
Ministry of Internal and Foreign Trade	✗	✗	✓
Ministry of Human and Minority Rights and Social Dialogue	✗	✗	✓
Ministry of the Foreign Affairs	✗	✗	✓
Ministry of Education	✓	✓	✗
Ministry of Family Welfare and Demography	✗	✗	✗
Ministry of Culture	✗	✓	✓
Ministries Science, Technological Development and Innovations	✗	✗	✗
Ministry for Public Investment	✗	✗	✓

Of the 25 ministries, two (the Ministry of Science, Technological Development and Innovation and the Ministry of Family Welfare and Demography) do not have any of the three basic outputs of the establishment of the FMC system, i.e. there is no business process map, no risk register and no risk management strategy.

c) The organisational set-up of the FMC system in relation to the JE category at central level is shown in Table 4.

Table 4. The parameters of establishment of the FMC system in Serbia

PEs	Submission of reports on the FMC system	Risk Management Strategy	Risk register	Business Process Maps
“Pošte Srbije”, Belgrade	✓	✓	✓	✓
PE for Forest Management “Srbijašume” Belgrade	✓	✓	✓	✓
“Putevi Srbije” Belgrade	✓	✓	✓	✓
“Srbijagas” Novi Sad	✓	✓	✓	✓
“Službeni glasnik”	✓	✓	✓	✓
“Zavod za udžbenike”	✓	✓	✓	✓
“Emisiona tehnika i veze”	✓	✓	✓	✓
“Nacionalni park Tara”	✓	✓	✓	✓
“Nacionalni park Fruška Gora”	✓	✓	✓	✓
“Nacionalni park Tara”	✓	✓	✓	✓
“Skijališta Srbije”	✓	✓	✓	✓
“Javno preduzeće za skloništa”	✓	✓	✓	✓
PWMC “Srbijavode”	✓	✓	✓	✓
“Nuklearni objekti Srbije”	✓	✓	✓	✓
“Jugoimport - SDPR”	✓	✓	✓	✓
“Elektromreža Srbije” a.d.	✓	✓	✓	✓
“Transnafta”	✓	✓	✓	✓

“Železnice Srbije” a.d.	✓	✓	✓	✓
“Srbija kargo”, a.d. /Serbia Cargo/	✓	✓	✓	✓
“Infrastruktura železnice Srbije” a.d.	✓	✓	✓	✓
“Elektro distribucija Srbije” d.o.o.	✓	✓	✓	✓
“Koridori Srbije” d.o.o.	✓	✓	✓	✓
“Prosvetni pregled” d.o.o.	✓	✓	✓	✓
“Dipos” d.o.o.	✓	✓	✓	✓
“Rezervat Uvac” d.o.o.	✓	✓	✓	✓
“Park Palić” d.o.o.	✓	✓	✓	✓
“Aerodromi Srbije” d.o.o.	✓	✓	✓	✓
“transportgas Srbija” d.o.o.	✓	✓	✓	✓
“Zapadna Morava” d.o.o. Kraljevo	✓	✓	✓	✓
“Galovica” d.o.o. Zemun	✓	✓	✓	✓
“Srednji Banat” d.o.o. Zrenjanin	✓	✓	✓	✓
DTD “Severna Bačla” d.o.o. Subotica	✓	✓	✓	✓
“Državna lutrija Srbije”, d.o.o.	✓	✗	✗	✗
“Srbijavoz” a.d.	✓	✗	✗	✓
“Nacionalni park Kopaonik”	✓	✗	✗	✗
“Tamiš dunav” d.o.o. Pančevo	✓	✗	✓	✓
“Sibnica” d.o.o. Belgrade	✓	✗	✗	✗
“Mreža Most”	✓	✓	✗	✗
“Metohija”, d.o.o.	✓	✓	✓	✗
“Tvrđava Golubački grad” d.o.o.	✓	✓	✗	✗
“Elektroprivreda Srbije”	✓	✓	✗	✓
“Stara Planina”	✓	✓	✗	✓
PE UCE “Resavica”	✓	✓	✗	✓
Nature Park “Mokra Gora” d.o.o.	✗	/	/	/
Water Management Company “Sava” Šabac	✗	/	/	/
“Šajkaška” d.o.o. Novi Sad	✗	/	/	/
“Erozija” d.o.o. Niš	✗	/	/	/

Based on the foregoing data contained in the Table 4, we can see that the following 3 PEs (6.98%) did not meet any of the three basic requirements of the process of establishing the FMC system (“Državna lutrija Srbije”, d.o.o. Belgrade, PE “Nacionalni park Kopaonik”, Kopaonik and Water Management Company Sibnica d.o.o. Belgrade) were timely submitted before 0830 hours by 26 June 2017.

d) At the local government level, i.e., in the DBBs (28 cities), the situation regarding the basic components of the organisational establishment of the FMC system is as follows:

Table 5. The parameters of establishment of the FMC system in Serbia

Cities/Towns	Submission of reports on the FMC system	Risk Management Strategy	Risk register	Business Process Maps
Belgrade	✓	✓	✓	✓
Novi Sad	✓	✓	✓	✓
Niš	✓	✓	✓	✓
Subotica	✓	✓	✓	✓
Kragujevac	✓	✓	✓	✓
Kruševac	✓	✓	✓	✓
Vranje	✓	✓	✓	✓
Kikinda	✓	✓	✓	✓
Pančevo	✓	✓	✓	✓
Sremska Mitorvica	✓	✓	✓	✓
Pirot	✓	✓	✓	✓
Požarevac	✓	✓	✓	✓
Prokuplje	✓	✓	✓	✓
Jagodina	✓	✓	✓	✓
Užice	✓	✓	✓	✓
Zrenjanin	✓	✓	✓	✓
Bor	✓	✓	✓	✓
Čačak	✓	✓	✓	✓
Vršac	✓	✓	✓	✓
Šabac	✓	✓	✓	✓
Sombor	✓	✓	✓	✓
Novi Pazar	✓	✗	✗	✗
Loznica	✓	✓	✓	✗
Valjevo	✓	✓	✗	✗
Leskovac	✓	✓	✓	✗
Kraljevo	✓	✓	✗	✓
Smederevo	✓	✓	✗	✓
Zaječar	✓	✓	✓	✗

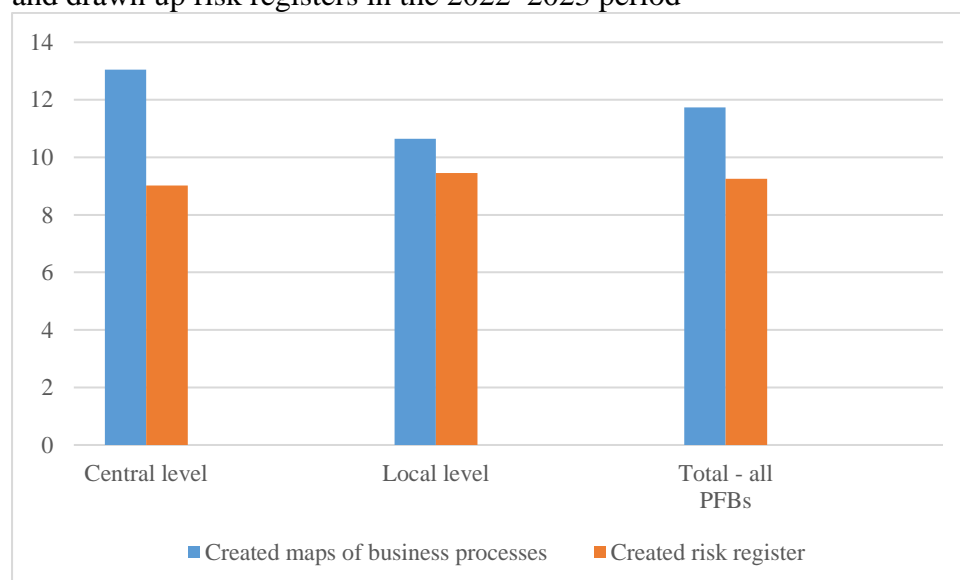
Based on the foregoing data, we can see that the Town of Novi Pazar did not meet any of the three basic requirements of the process of establishing the FMC system.

The Pace of Establishment of the FMC System in Serbia

The status of the organisational establishment of the FMC system was analysed by observing the group of central and local level PFBs that report regularly. When analysing the growth rates of all PFBs in the RS in the period 2022-2023, further progress can be seen. An increase of 5.35% and 6.68%, respectively, was recorded in the part of the organisational establishment of the system, which entails the appointment of FMC managers and setting up WGs. The highest percentage of overall progress relates to the introduction of business process maps (11.74%) and AP (10.07%). Progress has also been made in the introduction of a risk management strategy (8.52%) and 9.25% more public sector organisations have established a risk register.

The development (growth rate) of the proportion of PFBs for which business process maps and risk registers were created in the period 2022-2023 is shown in Figure 3.

Figure 3. Growth rates (in %) of the share of PFBs that have mapped their business processes and drawn up risk registers in the 2022–2023 period



The progress in the number of organisations that have created maps of business processes at the central level (13.05%) is primarily the result of the increased activity of ministries with administrative bodies in the composition (23.33%), IDBs (16.39%), the categories other and rest PFBs without PEs (11.86%) and the users of RHIF with 12.22%. In this respect, the category of other DBBs recorded a slight decrease of 2.33%.

OMSIs in terms of monitoring the dynamics of the establishment of FMC is a passive category, considering that the maximum percentage has been reached in all questions and the scope for possible progress cannot be expressed numerically in this way, but can be determined on the basis of the quality of the FMC system established. At the central level, progress in the form of the creation of a risk register is most evident in the categories other and the rest of PFBs without PEs (14.55%), IDBs (12.24%) and ministries with administrative bodies in their composition (9.09%).

In the creation of maps of business processes at the local level, the categories of other PEs with an increase of 9.18% and DBBs with 4.44% are active, while a particular progress of 15.06%

is recorded by the category IBBs, which influences that all PEs at the local level have an increase of 10.64%. On the other hand, the risk register recorded an overall increase of 9.46% for the local level, the highest for the IBBs (12.70%), followed by 7.18% for other PFBs, while the DBBs recorded the most modest progress (6.45%).

The priority PFBs in terms of the organisational set-up of the FMC system already have relatively high average scores, but considering their importance in terms of numerous indicators used by the RS in the negotiations with the EU and the fact that they represent a model group for other categories of PFBs, they need to continue with the development of key documents and the improvement of the FMC tools. Looking at all PFBs from this category, 85.71% of them have adopted the AP, 84.76% the risk management strategy, while 84.76% from this group have created maps of business processes in the organisation and 79.05% the risk register. With the exception of the appointment of the FMC manager, where a decrease of 2.20% was recorded, growth was achieved in all other parameters. The business process maps have 6.10% more priority PFBs submitting regular reports, AP 5.33% and risk management strategy and risk register 3.53% and 3.85% more respectively compared to the previous reporting period.

The increase in the number of persons or working groups responsible for the FMC and assigned tasks with execution deadlines is 7.35%, i.e. 74.24% in 2023 among those who report regularly, while the FMC manual is used 4.30% more in total as part of the activities to establish and develop the internal control system.

In order to build an effective internal control system that can serve management as a tool for decision-making, obtaining accurate and timely information, quality planning and monitoring of work and results achieved, i.e. to mitigate the negative consequences of threatening circumstances, it is necessary to establish a solid foundation. The foundation is reflected in the determination of persons, the assignment of roles and tasks and the determination of plans for the establishment and development of the system.

If all categories of PFBs and all eight questions from this part of the questionnaire are taken into account, this gives reason to hope that the system of internal controls is properly understood and that this positive trend will continue, considering that an increase was achieved for all individual questions, i.e. 6.77% on average for all questions.

2.1.4 Self-Assessment – the COSO Framework

In this part, we look at the results (through the average values of the PFB self-assessment) and the percentage of implementation of certain requirements according to the principles and elements of the COSO framework, based on the analysis of the data received by the PFBs, i.e. the PFBs that submitted the FCM report.

The PFBs rated the degree of application of the COSO principle with an average of 3.99, which indicates that there is still room for improvement (the range of average ratings is between 3.75 and 4.14). However, looking only at the priority users who rated the system at 4.16 (3.92 - 4.29), it is possible to be satisfied with the established FMC system. However, there is still room for further improvement of the FMC system among this user group as well.

Figure 4. Average rating of the FMC system according to COSO elements for priority users and all PFBs

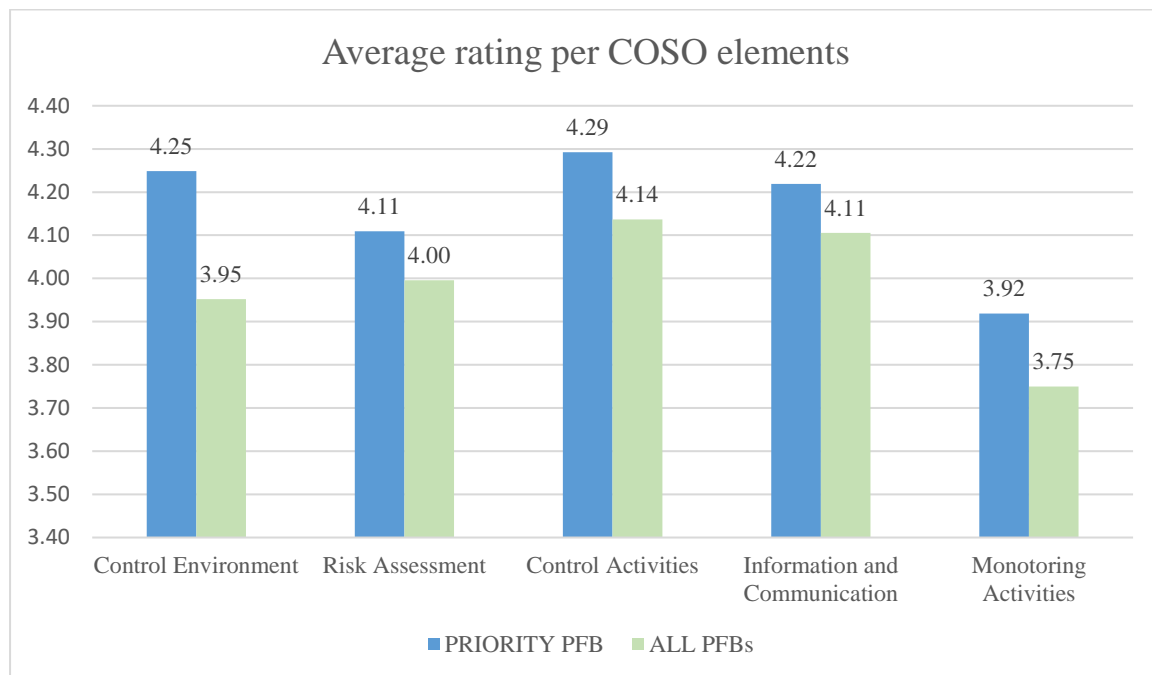
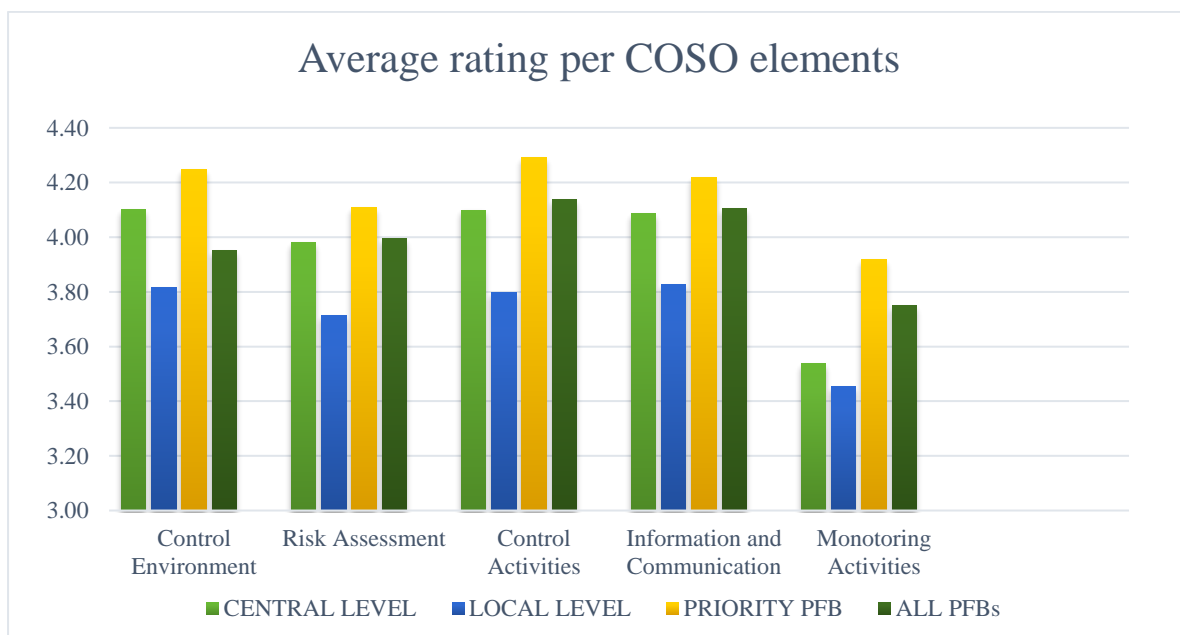


Figure 5. Average rating of the FMC system by COSO element for the central level, local level, priority PFBs and all PFBs



- 1) **The control environment** as the first COSO element represents the internal organisation and creates discipline, thus providing the basis for the establishment and functioning of the FMC system. It refers to the definition of standards, processes and structures in the organisation. The average rating of this element is 3.95 and it is one of the lower rated elements. However, when it comes to priority PFBs, the average rating is 4.25 and it is the

second most important element in this group of PFBs. Below are the scores for each of the principles of this element:

(a) The level of demonstrated commitment to integrity and ethical values was rated 4.02.

Standards of conduct (code of conduct that complies with the organisation's regulations, ethical standards and values) were defined by 87.76 PFB managers. 81.32% of employees, external partners of the organisation and users of services/citizens have been informed about it, 78.49% have prescribed measures in case of non-compliance, while even 80.50% of PFBs monitors their compliance. Appropriate measures in the event of possible non-compliance with standards of conduct (e.g.: interview, warning, admonition, disciplinary measures, dismissal, etc.) are applied by 86.94% of the PFBs. Only 41.87% of the PFBs organise regular training for employees and especially for new employees in the area of integrity, ethical values and organisational culture. In 74.02% of the PFBs, potential conflicts of interest, corruption and the way of acting are defined by rules, while 81.69% have established clear rules for whistleblowing to report suspicions related to violations of regulations and human rights, the exercise of public authority against the purpose for which it was entrusted, threats to life, public health, safety and the environment, and the prevention of major damage. 64.57 of PFBs have a mechanism in place to report, centralise and adjudicate suspected cases of corruption, fraud, financial reporting errors, procurement irregularities, mishandling of equipment, misrepresentation and misinformation and other irregularities. 46.71% of PFBs analyse data on compliance with standards of conduct and update/improve policies, communication, training, prevention and detection mechanisms and actions in case of breaches of standards of conduct as needed. An extremely high percentage of PFB managers - 91.32% - lead by example through their own behaviour, compliance with laws, regulations, internal actions, standards of conduct, leadership style, their professional attitude and commitment, etc. Nevertheless, the percentage of PFBs management that has allocated resources (competent staff, time, attention and other resources) to the development of the FMC could and should be higher than the current 62.05%.

b) The requirement for independent, competent and effective oversight applies more to companies and institutions than to public authorities. The average rating for this principle is 3.76, which is the lowest rating within the first COSO element.

65.57% of PFBs have a supervisory authority/body (supervisory/administrative board) and 62.05% supervise/monitor the functioning of all components of the FMC (they deal with ethics, resources, objectives and plans, risks, controls, reporting, system weaknesses, operations and functioning of the organisation). 71.38% of PFBs estimated that they are composed of competent individuals with complementary knowledge and experience who can objectively and critically analyse the functioning of the organisation. 93.52% of the PFBs are composed of members who are not in a conflict of interest. 74.72% of these authorities/boards analyse potential weaknesses and make suggestions to improve the quality of governance. Only 5.57% of the supervisory authorities/bodies have formed an audit committee/audit commission, while 10.79% communicate directly with the internal audit units, i.e. 11.70% with the external audit and even 51.81% specifically monitor high-risk areas (large amounts of money, complex transactions, etc.).

c) Organisational structure with defined lines of authority and responsibility - this principle provides information on how management defines the organisational structure, reporting lines

and corresponding responsibilities in order to achieve the objectives. This is the highest scoring principle, not only within this element, but when we look at all elements, and its score is 4.39.

92.74% of PFBs have an established organisational structure that is adequate for managing the organisation and achieving the objectives. 88.72% have clearly defined competences, work areas and responsibilities of the internal organisational units. A high percentage of PFBs - 81.96% - have defined the responsibilities of managers for the achievement of objectives and risk management. 75.39% of PFBs have established clear horizontal and vertical reporting lines that ensure the appropriate exercise of authority and responsibility and an appropriate flow of information for the management of the organisation and the achievement of objectives. 96.53% of the PFBs have job descriptions for each position, and even 96.99% of the PFBs have all employees know their roles and responsibilities in the organisation. Clear rules for the delegation of authority exist in 77.17% of the PFBs, in 83.15% of the PFBs the management delegates authority/responsibilities, and 75.98% of the PFBs adapt the organisational structure as necessary to new circumstances and identified weaknesses.

d) Organisational structure with defined powers and responsibilities – the fourth principle shows how the organisation demonstrates its commitment to attracting, developing and retaining competent individuals. It was scored 3.83.

In almost all PFBs, the level of knowledge and skills required for each position has been defined, i.e. this percentage is 96.76%. The verification of qualifications, knowledge and previous work experience of applicants for a position is carried out in 72.74% of PFBs, the competences of employees are regularly checked/assessed in 53.93%, an adequate number and structure of employees is in place in 55.16% of PFBs. Employee training needs are analysed by 66.99% of PFBs, training materials for each employee are available in 68.40% of PFBs, 85.30% of PFBs ensure the development of employees' competences (training, seminars, study trips, etc.), while only 22.05% of PFBs have a mechanism for attracting and retaining qualified employees. 40.05% of PFBs monitor and analyse staff turnover and take appropriate action, 57.76% have plans and procedures in place for turnover and the absence of managers and other staff, 62.79% practice handover of tasks for all positions, and 62.05% regularly assess future staff changes.

d) The individual responsibility of employees for the performance of tasks, i.e. the principle that shows how the organisation establishes a system of individual responsibility of employees for the performance of assigned tasks in the field of FMC, was rated with an average of 3.76 in the PFBs.

The individual responsibility of all managers for the achievement of objectives and for the implementation of projects and activities for which they are authorised is clearly defined in 86.39% of the PFBs and as many as 97.44% of employees are familiar with their work tasks. Measures for measuring work performance and incentive mechanisms for the fulfilment of work tasks are defined in 53.61% of PFBs, while the effectiveness of these measures is regularly evaluated and adjustments are made if necessary. 46.53% of PFBs regularly evaluate job performance and 52.33% of employees are promoted according to their job performance, while the percentage is slightly better when it comes to promotion of employees in the organisation based on clear and positive criteria that take into account past job performance appraisals (54.93%). Management in 62.79% PFBs assesses the level of workload/pressure that employees are exposed to and possibly distribute excessive workload.

2) **Risk management** entails the identification, evaluation and response to potential events and situations that could negatively affect the achievement of the PFBs' objectives. The average score for this element is 4.00 (4.11 Priority). Below are the scores for each of the principles of the second COSO element:

a) Definition of clear objectives - this is the principle where we track how the organisation defines objectives that are clear enough to enable the identification and assessment of risks associated with those objectives. The average score for this principle is 4.09 and it is also the highest scoring principle in this element.

High percentages are found in all statements, such as: 77.85% of organisations' strategic objectives are aligned with objectives from public policy documents, 77.63% of operational objectives are derived from strategic objectives, 60.55% of objectives are specific, measurable, achievable, relevant and time-bound (according to the "S.M.A.R.T." principle). However, for the PFBs, where the objectives form the basis for the allocation of resources, the percentage could be higher, as it is 59.59. A high percentage of PFBs - a full 92.05% - have projected and planned revenues and expenditure in line with the organisation's stated objectives. 61.60% of organisations have an acceptable level of deviation from the objectives set and 89.27% have targets that are in line with laws and regulations and professional standards.

b) Principle - Identification and analysis of risks to the achievement of specific objectives and consider available management options (possible responses to risks), i.e. the way the organisation identifies and analyses risks that may affect the achievement of objectives, has an average score of 3.68 and is the lowest scoring principle in this element.

Identify and assess risks that: jeopardise the achievement of operational (business) objectives is performed by 76.48% of PFBs; result in untimely, incomplete or inaccurate reporting (financial and non-financial), i.e. reporting is not in accordance with laws, regulations and relevant standards (accounting standards, etc.) and the needs of the organisation is carried out by 77.49% of PFBs; leading to non-compliance with laws and other regulations - 83.74%; and those that may threaten the organisation's resources/assets - 78.13%. As many as 11.51% of PFBs do not carry out any of the above risk identification and assessment measures. Nevertheless, it should be noted that their number has decreased by 15.61% compared to last year in the group of PFBs that report regularly. 61.10% of PFBs regularly identify and assess risks at all levels and in all parts of the organisation. 66.48% of the organisation's managers are regularly informed about risks, while 65.39% of the PFBs regularly discuss risks in management meetings. For 64.20% of PFBs, risk assessment implies an assessment of the probability of occurrence and an evaluation of the impact of the risk, while 69.77% of PFBs believe that the most important risks are clearly defined. The management of 64.06% of PFBs makes decisions on how to respond to risks (treatment, toleration, transfer/sharing, cancellation/abandonment of the risky target) based on the assessment of risk, impact and cost of reducing the risk level, and 61.96% set the deadlines for implementing the decision. The percentage of PFBs that monitor the results of activities to reduce the risk to an acceptable level is 58.36, and a slightly lower percentage of those that have identified risks, documented their assessment and the chosen response to the risk (e.g. risk register) and it is 52.10. The percentage that should increase relates to organisations that make appropriate updates to the risk register regularly (at least once a year) in the event of relevant new circumstances - it is 61.97%. Even with these statements, 12.65% of PFBs do nothing - this is quite a high percentage. Although

this is the lowest scoring principle of this element, the relatively high percentages indicate that the PFBs are paying adequate but still insufficient attention to risk.

c) The fraud risk assessment, i.e. the principle according to which the organisation considers the risk of fraud, was rated 3.80.

As many as 71.83% of PFBs assess the risk of intentionally false and incomplete financial and non-financial reporting, and 67.26% assess the risk of unauthorised intentional appropriation, use or misappropriation of the organisation's assets. The risk of corruption is assessed by 66.16% of PFBs, while 63.15% have an integrity plan in place. However, it should be noted that even 9.41% of PFBs do not take any of the above measures, so it is necessary to find a way to reduce this percentage in the coming period.

d) Change management, i.e. the principle that describes the way in which the organisation identifies and evaluates external and internal changes that could significantly affect the internal control system, was given an average score of 3.81.

On the assertion that the identification and assessment of risks in the organisation implies monitoring and analysis (identification, assessment and consequences): 88.40% of PFBs affirmed change in external regulatory environment; change in external physical environment (natural disasters, etc.) – 67.12% of PFBs; change in the market - 59.32% of PFBs; emergence of new technologies - 61.37% of PFBs; significant changes in the way the organisation carries out its activities (change in the functional model/business model, introduction of new technologies, etc.) – 60.18%; change in the management of the organisation - 63.56%; change in the number and structure of employees - 78.68%; changes in the status of the organisation - 50.50% and changes in the organisational structure and reporting lines - 56.26% of PFBs, while 6.58% of PFBs did not identify and assess any risks). In 37.99% of PFBs, responsibilities for forecasting and identifying relevant changes in the external environment are delegated, while 82.97% of PFBs regularly and according to needs/circumstances inform the relevant persons/offices about internal and external changes that may significantly affect the achievement of objectives and the functioning of the organisation. None of the above applies to 15.43% of PFBs, so a deeper analysis should identify the reasons why this percentage is not lower.

3) The third COSO element, i.e. control activities, aims to reduce risk to an acceptable level and is implemented through policies and procedures. They ensure business continuity and are implemented throughout the organisation, at all levels and in all functions and by all employees in accordance with the defined process and job description. The average rating of this element is the highest (4.14), both when all PFBs are concerned and when we consider only the priority PFBs (4.29) - and compared to the previous period, when this element was in third place, this shows that awareness of the importance of controls has increased among the PFBs. The rating of all three principles of this element can be found below:

(a) The principle that a public sector organisation selects and develops control activities (policies, procedures, measures, activities, processes, rules) that help reduce the risk to the achievement of goals to an acceptable level was rated 3.90.

That the most important business processes, i.e. the operational processes, in the organisation have been identified and described (business processes directly aimed at fulfilling the purpose of existence were confirmed by 89.68% of the PFBs; support processes (finance, human resources, IT support, etc.) 84.43% PFBs; management processes (planning, control, etc.) 82.33%; while only 4.75% of PFBs were unable to identify and describe any of the above points. The percentage of PFBs that have identified parts of the business processes where control activities are required is 73.61. In 61.87% of PFBs, appropriate personnel (staff member profile) are identified for the selection, development and implementation of control activities, while the selection and development of control activities for all risks for which management has made a decision to be treated in this way is carried out by half of the PFBs, i.e. 50.46%. The assessment of the effectiveness and efficiency (effectiveness/benefits and costs) of the different types of control activities is performed by 44.06% of the PFBs. 46.12% of the PFBs have selected and developed control activities that include a mix of different controls, such as preventive and detective, i.e. manual and automatic. 51.64% of the PFBs set deadlines for the implementation of certain control activities, while 58.68% of the PFBs have documented the control activities in the organisation (process maps, written procedures, etc.) - but it would be desirable if this percentage were higher. A fairly high percentage of PFBs - 70.87% - also carry out undocumented control activities in the organisation, i.e. they claim that there are unwritten procedures in the organisation. In 72.97% of the PFBs, control activities are present at various levels in the organisation of the PFBs. However, 8.13% of the PFBs do not have any of the above-mentioned possibilities, which is a relatively high percentage. In 71.05% of the PFBs, the same person does not perform two or more of the following tasks simultaneously: proposing, approving, executing and recording business changes (segregation of duties), while in 43.38% of PFBs an alternative control mechanism has been introduced (e.g. increased supervision, a second pair of eyes, etc.) in case it is not possible to implement adequate segregation of duties in the organisation. In 70.27 of PFBs, the transaction/report is checked/reviewed before execution by a person who did not originally process or prepare the transaction ("dual control principle"). A high percentage of PFBs - 75.89 - have established procedures and rules to ensure information security, 83.47% of PFBs have established procedures and rules to ensure that only authorised persons have access to physical, financial and other resources, 89.91% of PFBs have regular reconciliation of assets with accounting data, 64.84 of PFBs have developed plans to ensure business continuity in the event of unforeseen circumstances (e.g. fire, flood, etc.), and 64.84 of PFBs have established procedures and rules to ensure that only authorised persons have access to physical, financial and other resources.(e.g. fire, flood, epidemic, power failure, martial law).

b) The principle related to the selection and development of control activities in the area of technological infrastructure was rated 4.06, which is the highest average rating for this element.

Percentage of PFBs that have selected and developed: control activities aimed at ensuring the completeness, accuracy and availability of information through IT data processing is 80.05; control activities aimed at protecting the confidentiality and integrity of information (unauthorised modification/manipulation of data, theft, damage, etc.) has 78.49% of PFBs; control activities aimed at ensuring the process of procurement, maintenance and development of IT infrastructure - 68.81% of PFBs; control activities ensuring access to the IT infrastructure only for authorised users according to responsibilities are present in 80.41% of PFBs, and procedures ensuring the continuity of the functioning of the IT infrastructure, i.e. protection against data loss, etc. are present in 65.16% of PFBs, and even 7.21% of PFBs have not marked any of the above points. When it comes to IT systems and applications in which control

mechanisms are integrated during: data input has 88.08% of PFBs; data processing - 85.53% and information output - 79.45% PFBs. A relatively high percentage of PFBs have no integrated control mechanisms in IT systems, specifically it amounts to 9.45%.

c) The principle of implementing control activities through policies (defining expectations) and procedures (implementing those policies) was rated 3.87 and is the lowest rated principle of this element.

89.50% of the PFBs confirmed that the organisation has implemented policies and procedures for business processes and daily activities of employees that include control activities, and 73.70% have confirmed that the organisation have developed policies and procedures for business processes and daily activities of employees that include control activities. Documented/written procedures for key business processes exist in 80.87% of PFBs, while in 74.43% of PFBs procedures for key processes clearly define specific steps/actions and their sequence. The percentage of PFBs for which it is clear at which point in time, in which phase of the business process or transition the control is carried out is 67.31%, and 72.15% of PFBs have defined who is responsible for carrying out the individual control activities. 71.10% of the PFBs have confirmed that the control activities are carried out in practice in a timely manner and in accordance with the procedures. 68.63% of PFBs have affirmed that the competent and responsible persons carry out corrective actions in a timely manner, i.e. correct errors/shortcomings observed during the implementation of the control activities and only 40.78% of the PFBs are known to record and report exceptions, i.e. cases of authorised deviations from the established procedures. Slightly more than half, i.e. 51%, PFBs regularly review control activities and reorganise them if necessary - and this percentage should definitely be higher. It should also be noted that 4.75% of PFBs do not carry out any of the above measures.

4) ***Information and communication*** - the principles of the fourth COSO element relate specifically to the need for the organisation to a) obtain or generate and use relevant and quality information, in other words to communicate, both b) internally and c) externally, all information relevant to internal controls. The average rating of this element is 4.11, which is directly behind the rating of the control activity element (with priority PFBs it is in third place and reaches a high 4.22).

a) The principle of obtaining, generating and utilising relevant and high-quality information is rated at 4.00.

76.58% of the PFBs have confirmed that the information obtained is essential for the operation of the organisation and the functioning of the FMC. Specific information needs of organisational units and employees have been identified by 73.15% of the PFBs, while 62.74% of the organisations regularly identify and assess changes in information needs. When collecting and processing information, 85.11% of PFBs take into account past compliance with regulations on personal data protection, etc., and 65.94% of organisations have identified relevant and reliable internal and external data sources. 51.55% of PFBs evaluate the benefits and costs of obtaining and using information when setting up and maintaining information and communication systems, 73.47% have a data processing system that provides quality (adequate, up-to-date, timely, accurate and complete information), 81.64% of organisations have a system in place that allows information to be easily accessible to the employees who need it, and in 85.39% of PFBs prevent unauthorised access to information (protection of

different levels of confidentiality/sensitivity of information). A high percentage - 86.99% of PFBs - have ensured the long-term storage of information, while 58.22% of PFBs have regularly assessed and improved their systems for collecting, processing, and distributing information as needed to ensure its quality. However, none of this is the case for 4.25 of the PFBs.

b) The principle related to internal communication, i.e. the way the organisation communicates information internally, including the objectives and responsibilities/tasks in the field of FMC, was rated 4.01, which is the highest rated principle of the fourth COSO element.

91.42% of PFBs agree that there is an effective and efficient system of written, electronic and verbal communication that enables employees to get the information they need internally to do their job, 86.53% of PFBs have confirmed that new employees and employees in new positions are familiar with their roles and responsibilities (training is provided, as well as instructions, policies, procedures, mentoring...), in 93.20% of PFBs employees are familiar with the organisation's objectives, while regular reporting to management (achievement of objectives, revenues, execution of financial and other plans, available funds, liabilities, receivables, reasons preventing the achievement of the planned, etc.) exists in 90.59% of PFBs. Urgent and important information is communicated quickly in 91.51% of PFBs, specific communication channels for complaints, observations, reports of suspected irregularities, etc., ensuring anonymity and confidentiality (internal reporting, etc.) are in place in 73.33% of PFBs, but only 41.87% of PFBs have a centralised collection of information on substandard behaviour (including suspected irregularities, complaints, etc.). A slightly higher percentage - 44.93 of PFBs - analyse/assess information on non-standard conduct by persons who are independent in relation to the persons whose conduct is the subject of the report. The percentage of PFBs that regularly assess the adequacy of the existing communication system (procedures, methods, etc.) and make any necessary improvements is 55.75. Only 1.10% of the PFBs have confirmed that none of the above systems are in place.

c) The principle relating to external communication - how the organisation communicates with external parties/stakeholders on issues relevant to the functioning of the FMC - was rated at 3.84. This is also the lowest rated principle. It is also the lowest rated principle of the COSO Information and Communication elements.

89.72% of PFBs have established an effective and efficient external communication system for timely and relevant information that ensures the necessary proactive transparency towards state authorities, the civil sector, service users, citizens and other external stakeholders (important documents are published on the website, etc.). The procedure/rule to authorise official external communication (reports, notices, announcements, etc.) before publishing information exists in 75.34% of PFBs, while 82.92% of the PFBs have open communication channels through which service users, citizens, business partners and other external stakeholders can directly contact to provide and receive information, raise complaints and objections, etc. (customer service/support). In 58.86% of the PFBs there are specific communication channels for reporting suspected irregularities etc. that ensure anonymity and confidentiality (whistleblowing etc.). The management of 69.09% of the PFBs receives and considers information from external sources relevant to FMC and the achievement of the organisation's objectives, while only 54.77% of the management/supervisory boards receive information about the results of the FMC assessment carried out by external organisations/persons, information about changes in legislation/regulations etc. Existing procedures and methods of

external communication are regularly analysed and improved/updated where necessary in 51.23% of PFBs and only 3.93% of PFBs have none of the above.

5) **Monitoring (supervision) and evaluation** refer to the implementation of mechanisms to monitor the FMC system, and are last, i.e. the fifth element. As in the previous period, this is the lowest scoring element of the COSO framework and it amounts to 3.75 when all PFBs are involved, but 3.92 when priority PFBs are involved.

a) The principle relating to the activities to assess the condition and operation of the internal control system, the way in which the organisation selects, develops and performs ongoing and/or specific reviews to determine whether the internal control components (FCM elements) are established and operating, has an average rating of 3.59. Both principles of this element have the lowest average values compared to all other principles (across the other four elements). Although the average value of this principle is slightly higher than the others, it is still the lowest and requires focus in the coming period to improve the functions of this element.

Whether employees adhere to procedures and perform their duties, i.e. whether control activities are actually carried out in practice, is monitored by 82.24% of PFBs. Whether control activities function as intended is monitored by 74.93% of managers and other PFBs staff. The achievement of objectives by employees and the parts of the organisation they manage is monitored by 88.26% of PFBs managers. Compliance with laws and regulations is monitored by 97.08% of PFBs managers, while 87.08% of managers receive regular and timely information from employees about the fulfilment (or non-fulfilment) of work tasks, risks, irregularities and similar issues. The reasons for a possible failure to meet objectives are analysed in 76.12% of the PFBs, while the FMC self-assessment during the reporting period (independent of the annual reporting process) has been only carried out by 24.66% of the PFBs. 39.41% of the PFBs assess whether recorded exceptions, i.e. deviations from established procedures and rules, are justified if such exceptions occur frequently. 37.49% of the PFBs take measures in this regard (e.g. change of procedures, warnings). An assessment of security information and/or IT infrastructure is carried out in 42.05% of the PFBs during the reporting period. In addition, 43.74% of the PFBs monitor the implementation of the activities set out in the action plan for the FMC and analyse the reasons for possible deviations from the action plan. The internal audit function was in place at only 26.67% of the PFBs, and an internal audit was performed in 20.68% of the PFBs during the reporting period. In the same period, 36.48% of PFBs had an external audit (either by the SAI or an independent audit company).

b) The principle related to analysing and communicating identified weaknesses and monitoring the progress of corrective actions, i.e. how the organisation assesses weaknesses and reports them in a timely manner to those responsible for implementing corrective actions, including management and the supervisory/executive board, is the lowest rated COSO principle with a rating of 3.40.

71.51% of the PFBs have confirmed that the organisation collects and analyses all information relevant to the FMC from all available sources (both internal and external). In addition, 59.22% have confirmed that information on identified deficiencies or weaknesses of the FMC is promptly communicated to management, while only 38.75% of PFBs have confirmed that this information is made available to the supervisory or executive board. The recommendations of the internal audit are taken into account by 32.56% of the PFBs, those of the external audit by 55.71%. Only in 47.35% of the PFBs, information on identified deficiencies/weaknesses of the

FMC is communicated to those responsible and in charge of correcting the deficiencies/weaknesses of the FMC, and 41.55% analyse and determine samples of the identified FMC deficiencies (errors, omissions, illogicalities, limitations, etc.). In 43.79 of the PFBs, inadequate procedures/control activities are identified and changes are proposed (change of procedures, deletion of ineffective and ineffective control activities, introduction of new control activities), in 73.20% of PFBs, employees can make their suggestions for improving the FMC, and in 43.56% of PFBs, the organisation's response is determined in a timely manner (appropriate action), i.e. it is aimed at eliminating the deficiencies/weaknesses of the FMC. When internal audit recommendations were accepted, only 30% of the PFBs have implemented them promptly. In contrast, 50.23% of the PFBs have implemented accepted external audit recommendations in a timely manner. 46.12% of PFBs have confirmed that prompt action is taken when deficiencies are identified by the FMC (regardless of the implementation of internal and external audit recommendations). In addition, 53.97% of the PFBs follow up on the implementation of measures to remedy deficiencies or weaknesses and 44.93% inform management if appropriate measures are not implemented in a timely manner. None of the above applies to almost 10% of the PFBs, specifically 9.36%, which is a significant percentage. The data indicates that the audit function, particularly internal audit, is not yet sufficiently recognised within the system and that more attention should be paid to this issue in the coming period.

As the questionnaire is updated annually and the scope of the PFBs analysed changes, it is not possible to fully compare the results with those of previous years. However, it is clear that the FMC system has room for improvement, not only by increasing the percentages of certain criteria, but also by reducing the percentage of PFBs that meet "none of the above criteria".

It is encouraging that the methodological tools developed by the CHU are increasingly being utilised in the establishment and development of the FMC system. The most significant increases can be seen in the percentage of CHU that have used the Guidelines on managerial accountability (+24.29%) and the Guidelines for the Management of Irregularities (+20.84%). However, the overall percentage of utilisation remains low, suggesting that these concepts should be further developed and additional training on this topic is required.

It is also positive that a large number of PFBs use the FMC Manual (81.69%) and Guidelines for the Risk Management (64.06%) when setting up and developing internal control systems in their organisations.

Another parameter of the recognition of the importance of the internal control system among public sector employees is the percentage of managers and employees responsible for FMC (27.40%) who have confirmed participation in the basic FMC training organised by the CHU in the last five years. This percentage rises to 43.20% for training courses not organised by the CHU.

These parameters indicate that improvements in this area are likely. To ensure that the FMC system is properly understood, accepted and established, the CHU will continue to develop methodological tools and organise training session in this area throughout the coming period.

2.1.5 FMC in primary and secondary educational institutions

In the past period, the CHU worked with the Ministry of Education to make the PIFC more accessible to educational institutions.

Years ago, annual reporting showed that school institutions were among the most diligent groups in the RS public sector in terms of reporting to the MoF on the status of PIFC in their organisations. Through communication with these institutions, it was concluded that the reporting forms should be adapted to their specific working methods to ensure that the self-assessment becomes a useful tool for school management and not an administrative burden that undermines its purpose.

As of the reporting period for 2023, a special report was prepared for the annual reporting on the status of the PIFC for educational institutions. The annual report on the status of financial management and control and the annual report on audits and internal audit activities for educational institutions were been combined into one document to provide a better overview of the situation in educational institutions, taking into account the large number of primary and secondary schools in the RS.

The report for educational institutions kept the form of the FMC report submitted by other PFBs, with the content adapted to the way educational institutions work. This means that the statements describing the principles are adapted to educational institutions and enable IBBs at a central level to more easily identify the strengths and weaknesses within their organisations. In this way, they can understand what is required for the effective functioning of the internal control system and work to improve the areas that require attention. The second part of the report for educational institutions is the IA report, which differs from the IA report submitted to the CHU by other PFBs. The IA report for educational institutions only contains a few segments that are filled in, but they are sufficient to recognise the state of IA in these institutions.

A total of 1,590 reports were received from these PFBs, which corresponds to 89% of the total number of primary and secondary schools in the RS.

The data shows that the largest percentage of reports were made by their head masters (45.06%) and the WG for FMC (37.51%), which shows that the management understands the purpose and importance of self-assessment as part of the annual reporting. Practise has shown that it is best if the report is prepared by the management and not by other individuals who may not be familiar with all the activities of the institution.

A high percentage of selected items in the sections relating to key business processes and required documentation indicates that educational institutions have an organised system in place. In addition to the documented main business processes, attention should also be focussed in the coming period on specific business processes where there is still room for further design and documentation.

In the documentation related section, 64.51% of educational institutions have a risk management strategy, which indicates that there is room for improvement in the creation of this mandatory document related to the FMC (in the educational organisations that do not yet have one).

Assessment of the Elements of the COSO Framework in Primary and Secondary Schools:

In the self-assessment section, the control environment and information and communication elements received the highest ratings with an average score of 4.33 and 4.41 respectively. The risk assessment and control activities elements have average scores of 4.22 and 4.26 respectively. The monitoring and evaluation element received the lowest rating with an average score of 3.97.

Control Environment

The largest percentage of schools have confirmed that an organisational structure in place is suitable for managing the institution and achieving its objectives, and that all staff are familiar with their roles and responsibilities. The principle relating to how the organisation establishes a system of individual staff accountability for the completion of assigned FMC tasks was rated lowest within the control environment element with a score of 3.94. Within this principle, the lowest percentage of school organisations agreed with the items relating to promotion and advancement of staff within the organisation.

Risk Assessment

Half of the educational institutions (50.85%) have reported that they do not document risks, suggesting a lack of understanding regarding the purpose of identifying and documenting risks.

Control Activities

A good indicator of the existence of an internal control system in the schools is the score of 4.34 for the principle that refers to appropriately designed control activities in the form of policies, procedures, measures, activities, procedures and rules (including unwritten procedures) in the educational institutions.

As 62.11% of educational institutions responded in the affirmative to the statement that they have business continuity plans in place in case of unforeseen circumstances (e.g. fire, flood, epidemic, power failure, peace state of war), attention should be paid to the development of these plans in the coming period. This also applies to the selected and developed procedures that ensure the continuity of the functioning of the IT infrastructure, i.e. protection against data loss (61.04%).

We emphasise that it is very important that the control activities are regularly reviewed and updated if necessary.

Information and Communication

Regarding the principle of obtaining, producing and using relevant, high-quality information, 99.37% of educational institutions confirmed that staff have access to the information they need, which is a very positive indicator.

In terms of internal reporting, the percentage of 82.19 suggests that the system in this area is well organised. However, the lower percentage of 68.53, which indicates the existence of a

specific communication channel for reporting suspected irregularities (while maintaining anonymity and confidentiality towards external parties), shows that there is still room for further improvement.

Monitoring the System

The principle reflecting the extent to which the organisation selects, develops and implements continuous and/or specific assessments to determine whether the internal control components (FMC elements) are in place and functioning is rated 3.87. This score is weaker compared to other principles, indicating that more attention needs to be paid to this area in the near future, particularly regarding activities related to perceived weaknesses, identified exceptions, and the actions to be taken in response.

2.1.6 Statement on Internal Controls

Article 20 of the of the FMC Rulebook prescribes that the head of PFB shall provide a Statement on Internal Control as an integral part of the FMC annual report (hereinafter: the Statement). The PFBs are required to submit the Statement starting from 1 January 2021.

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

The PFBs heads can select one of the three Statement options offered.

The first option, if no weaknesses in the system have been identified, confirms that the internal control system is operating effectively and efficiently and that the organisation is managed in accordance with the principles of legality, regularity and good financial management.

The second option confirms that there are certain weaknesses in the system of internal controls which will be remedied as soon as possible and that, despite the weaknesses identified, the system of internal controls is operating effectively and efficiently and the organisation is managed in accordance with the principles of legality, regularity and good financial management.

The third option confirms that there are weaknesses in the internal control system that may have a negative impact on compliance with the principles of legality, regularity and sound financial management and that these weaknesses should be addressed as soon as possible.

The analysis showed that, of the declarations received, about 61% of the PFBs managers signed the first option, about 38% the second option and about 1% the third option.

Similarly, the analysis of the declarations received from the schools showed that 76.5% of the head teachers signed the first option, 23.25% signed the second option and 0.25% signed the third option.

2.1.7 FMC from the Perspective of PFBs

The FMC report form also contains a section with open questions in which the PFBs can state:

- the main problems and weaknesses in the establishment and development of the FMC system;
- planned activities of the PFBs;
- proposed activities for systemic improvement of internal controls;
- proposed topics for training in the area of FMC.

Qualitative analysis of the data from this segment of the FMC report provides additional support for the conclusions and insight into the PFBs perspective and their suggestions for improving the FMC system.

PFBs, belonging to all categories, emphasise:

- a lack of human resources both in terms of structure and number of staff, an overload of existing human resources, a high staff turnover and an underdeveloped recruitment and retention policy both for the implementation and development of the FMC system and for the optimal functioning of the organisation, partly caused by the still existing moratorium on employment;
- that the training of managers and staff entrusted with FMC-related tasks is inadequate;
- the information and awareness of managers at all levels and employees about the need, purpose, importance and benefits of the internal control system are not at an adequate level;
- the need is identified in relation to the establishment of the WG, the appointment of the head of the FMC, the preparation of the AP, the delegation of authority and responsibility, etc.;
- the need for training and workshops and the development of methodological materials and tools adapted to the different types of users and the specificities of organisations, the nature of their activity and structure (e.g. healthcare system, cultural institutions, social protection, pre-school institutions, etc.);
- the need for more exchange of experiences between the same categories of PFBs and networking of people operationally involved with the FMC system is highlighted;
- that due to the lack of knowledge and skills, workshops are needed for the development and application of FMC tools - maps of business processes, flowcharts and internal procedures - as well as for the adequate definition of the organisation's objectives and the identification of related risks, the development of a risk management strategy and risk register, and the development of AP.

Among the planned activities of the PFBs, they emphasise that:

- they will focus on improving the functioning of the FMC system and updating it (appointment of FMC officers, the establishment of WG, the development of procedures that clearly define responsibilities and segregation of duties, as well as procedures for specific business processes and their mutual harmonisation, the continuation of the work focusing on the risk management process that has already been initiated as well as application and monitoring, etc.);
- planning of training sessions in the area of FMC, but also in other areas with a view of staff development.

As a proposal for further improvement of the FMC system and the training topics, PFBs suggests:

- further elaboration of methodological instructions in the field of irregularities, as well as proposals for adapting training and questionnaires for FMC, specifically for institutions in the fields of culture, health and social care, pre-school institutions, etc.;
- the need for better cooperation, commitment, and support from the DBBs and/or the founders and the IBBs in terms of financial and human resources;
- the creation of a common platform for the exchange of experiences to improve the field of PIFC;
- suggesting topics for training or webinars in the areas of risk management, the creation of procedures, and the updating of APs (based on several practical examples).

2.1.8 Management of Irregularities

The introduction of irregularity management in public sector organisations is an important tool for PFBs managers to monitor the FMC system, further optimise FMC processes and reduce the risk of misuse of public funds.

The definition of irregularities is found in Article 2, paragraph 1, item 51d) of the Budget System Law (BSL): “An irregularity is any breach of a legal or contractual provision resulting from an act or omission by employees of a public funds beneficiaries, contractors, end users and end recipients, which has or could have an adverse effect on the achievement of the objectives of the public funds beneficiaries and/or causes unjustified costs.”

In addition, Article 18 of the FMC Rulebook provides that PFB Heads are required to establish a system for detecting, recording and acting upon reports of suspected irregularities in the organisation they manage, as well as a system for reporting on the management of irregularities, and the head is also required to take precautions to reduce the risk of irregularities.

The irregularity management system enables the PFBs’ management to receive and take into account information on possible irregularities and/or fraud so that it can react appropriately if the achievement of objectives is jeopardised. Managers, employees or third parties shall report deviations, inconsistencies or breaches of written rules that constitute an irregularity or give rise to a reasonable suspicion that an irregularity has occurred, irrespective of its extent and significance and whether committed intentionally or negligently.

In 2023, the largest number of PFBs (91.51%) had no confirmed suspicion of irregularities, while 8.49% of PFBs stated that they had confirmed irregularities. Of the total number of PFBs that confirmed suspicions of irregularities, 96.77% stated that they resolved them - of these, 62.90% of irregularities were resolved within the PFBs, 0.54% were resolved outside the PFBs and 33.87% were resolved within the PFBs and outside the PFBs.

In the case of educational institutions, 5.16% of them confirmed irregularities, and of those who confirmed irregularities, 98.79% were resolved. Of the total number of school organisations that confirmed suspicions of irregularities, 60.98% declared that they were resolved within the organisation, 1.22% outside the organisation and 35.37% both inside and outside the organisation.

2.1.9 Reviewing the Quality of the FMC System

The purpose of observing the quality of the FMC system is to evaluate the FMC system in place and to assist the PFBs in meeting the international standards of internal control in an appropriate and fit-for-purpose manner, i.e. to provide assurance that the FMC system at the selected PFBs has been established and is functioning properly in accordance with the principles of the COSO framework. Observing the quality of the FMC system as one of the functions performed by the CHU provides a better insight into the state of the FMC system (and the functioning of the PIFC system). In addition, this “on-the-ground” function enables the identification of best practises within the PFBs, particularly in terms of feedback on the understanding and application of the methodological materials produced by the CHU. It also helps to achieve an optimum level in the establishment and functioning of internal controls.

The methodology for the selection of institutions is based on thematic priorities, taking into account the purpose of assessing the quality of the FMC system and the capacities of the PFBs. In the selection of PFBs, national parks and nature parks were selected on the basis of the importance of environmental protection, including nature parks where the protection procedure has been officially initiated, meaning all regulations and protection measures set out in studies for new national parks are already in force.

In the course of 2023, the observation was carried out at the following PFBs:

- Public Enterprises for the Development of the Mountain Tourism “Stara Planina”
- Public Enterprise “Nacionalni park Tara”
- Public Enterprise “Nacionalni park Đerdap”
- Public Enterprise “Nacionalni park Fruška Gora” and
- Public Enterprise “Nacionalni park Kopaonik”.

One of the challenges for the PFBs observed is that they are public enterprises that have to “fight for their profit” and protect nature at the same time.

Looking at the individual results and conclusions reached during the observation, it is clear that the current state of the process of establishing the FMC system in the observed PFBs is at different stages. On the basis of the observation, specific measures to further improve the FMC system were proposed in the individual reports.

In the PFBs observed, the weaknesses and deficits are primarily in the areas of control environment (particularly in human resource management), risk management and inadequate coverage of the IA function.

While observing the quality a positive attitude towards sound financial management was noticeable and the majority of managers in the PFBs observed showed a high level of awareness of managerial accountability.

The basic attributes that define the prerequisites for the proper implementation of the **control environment** element — such as a clear organisational structure, the establishment of reporting lines and the definition and assignment of competencies and responsibilities — are established in almost all of the PFBs observed. However, these must be updated promptly and supplemented by documented procedures where necessary.

The management of human resources is particularly important bearing in mind that institutions are faced with the challenge of maintaining a stable number of employees and attracting and retaining staff.

Among the observed PFBs, there is an awareness of the importance of **risk management**, especially among those whose strategic objectives are defined in valid public policy documents.

It is noticeable that risks have been identified in various strategic documents related to the activities of the observed PFBs, so their standardisation (also through a risk register) remains a challenge for some PFBs.

In addition, the management of certain PFBs should clearly distinguish between strategic and operational objectives in the coming period and ensure that operational objectives are recognised as being derived from strategic objectives. This should lead to the development of a new or updated risk management strategy and associated risk register.

Control activities in the most of the observed PFBs are established at a satisfactory level and include a number of different activities such as approvals, authorisations, reviews, adjustments, operational success (performance) reviews, asset protection and task sharing. Some of the observed PFBs have maps of their business processes, while others are in the process of updating them. In some PFBs there are control activities carried out at all levels, but they are not documented.

It can be concluded that *the information and communication* component is well established in the observed PFBs, although there is still room for improvement. A common problem of all the observed PFBs is that their reporting systems are complex and require the preparation and submission of a large number of reports, often within short periods of time. The data in these reports often overlap, emphasising the need to improve and monitor the reporting system.

The monitoring and control component needs to be improved in all observed PFBs. Although a monitoring and reporting system was established in most of the monitored PFBs, especially in the context of risk management through work plans and programmes, the IA function, which is crucial for this component, was not established in most of the national parks. Only the Public Enterprise “Nacionalni park Fruška Gora” employs an internal auditor, while “Nacionalni park Đerdap” has engaged two certified internal auditors from the public sector to fulfil the IA tasks, as it was not possible to recruit suitable staff. The other PFBs observed do not have an established IA function, and where audit committees exist, they meet irregularly.

The review of the quality of the FMC system also revealed that in order to further improve the FMC system in the observed PFBs, it is necessary to hold regular meetings of the members of the WG for FMC. This will ensure continuous sensitisation, the exchange of knowledge and information regarding the FMC and the further development of the internal control system. It is also necessary to regularly update the documents on the implementation and development of the FMC system. It is desirable to use business process maps as a tool for implementing internal controls. Although the FMC system has been formally introduced, it is necessary to create and regularly update the action plan (AP).

Strengthening the professional skills of all employees is crucial, as is monitoring whether their number, quality and expertise are sufficient to carry out all planned activities. In addition, improving the salary policy is important, as recruitment and retention problems have been observed.

The review has also shown the importance of organising training and information seminars to explain the meaning and importance of reporting on the FMC system (both internally and externally). In addition, the focus in the coming period should be on improving the risk assessment component.

The initiative to form a joint IA function for several (or all) national parks and nature parks should be considered and developed, since the IA function is crucial for managers as it supports the monitoring and control of PFBs operations.

In the national parks observed, neither the National Parks Expert Council (an expert body that monitors and analyses programmes and projects related to conservation and sustainable use of natural resources) nor the User Councils, which aim to improve the management of protected areas by working with local communities, were established in all parks. These bodies aim to ensure sustainable resource management in the most important protected areas in Serbia. The User Councils are made up of representatives of local self-governments, organisations and associations that are active in the area of the national park. Under the Law on National Parks, they participate in the development of plans and programmes for the management of national parks, the priority being to ensure better protection and promotion of the area through liaison between the managers and the local community. However, they have not contributed sufficiently to improving the management of protected areas.

Economic activity poses a challenge to their work, as they have to operate within the framework of the market economy, while representatives of the state, as part of the public sector, are restricted by environmental protection regulations. The representatives of the PFBs observed also believe that a Law on the Management of Enterprises Owned by the Republic of Serbia would facilitate their work and help overcome the current restrictions they face.

2.2 Internal audit

2.2.1 Scope of internal audit

The IA report form contains general data on PFBs, data on the IA unit and internal auditors, on the application of standards and the methodology of the work of IA, proposals for the development of the IA system and an overview of the audit engagements performed for the provision of assurance services with the number of recommendations made for specific types of recommendations as well as the number of audit engagements performed for the provision of advisory services. For 2023, the form of the IA report was not fundamentally changed compared to the previous year, with the exception of the educational institutions, which submitted a consolidated annual report on financial management and the control system as well as an annual report on the audits and internal audit activities. In addition, technical reconciliations were carried out due to changes in the IA regulations that came into force during the reporting period. The completion of the IA report by PFBs was made easier by adapting the questions to the modality of the establishment of the IA function. New questions were

added on the perception of the IA's contribution, the status of the IA and the activities undertaken to ensure an optimal number of internal auditors.

According to the data processed, a total of 1420 PFBs submitted the IA report for 2023.

This section of the report shows the scope of IA analysed in the most important PFBs⁹, in terms of the budget they have and the number of staff. The scope of IA is primarily analysed according to the scope of the budget of a given category of FMC. It should be noted that the official list of FMC of the Treasury Administration, in some cases includes the accounts of individual institutions and public sector organisations in addition to the organisational parts, so that the analysis of the scope of IA cannot be based only on the number of FMCs included in the said list.

The criterion applied to establish IA coverage is the requirement that the PFBs have a so-called functional IA, i.e. IA that has conducted at least one audit engagement in the reporting period.

Table 6. Scope of IA function per PFB categories

PFB category	Total number of PFBs by category	Number of PFBs with functional IA	% of PFBs with functional IA of the total number of PFBs	% of the coverage of the budget by functional IA per PFB category	Number of PFBs that have a full IA unit with at least three auditors	% PFBs with the staffed IA unit
Ministries with constituent administrative bodies ¹⁰	29	20	69%	93%	10 of 29 mandatory	35%
Other DBBs at the central level ¹¹	70	26	37%		1 of 7 mandatory	14%
OMSIs	4	4	100%	100%	3 out of 3 obligatory under the old or 8 out of 11 under the new one	100% under the old or 75% under the new one
AP Vojvodina	1	1	100%	100%	1 of 1 mandatory	100%
Cities/Towns ¹²	28	24	86%	95%	8 of 28 mandatory	28%
Municipalities ¹³	117	51	43%	50%	-	-
PEs at the central level	48	30	62%	98%	9 out of 14 obligatory under the old or 8 out of 11	64% under the old or 73% under the new one

⁹ For the purposes of this report, in the presentation of the status of IA in PFBs, the “most important” institutions refers to the group of direct budget beneficiaries at central level, OMSIs, LSGs and PEs.

¹⁰ This category includes IA in 25 ministries and the special IA established in four administrations (the Treasury Administration, the Tax Administration and the Customs Administration and the Agrarian Payments Administration in the Ministry of Agriculture, Forestry and Water Management).

¹¹ Without administrative districts. .

¹²Excluding cities from the territory of the AP K&M.

¹³Excluding General from the territory of the AP K&M

PFB category	Total number of PFBs by category	Number of PFBs with functional IA	% of PFBs with functional IA of the total number of PFBs	% of the coverage of the budget by functional IA per PFB category	Number of PFBs that have a full IA unit with at least three auditors	% PFBs with the staffed IA unit
					under the new one	
Total:	297	156	53%	/	32 from 82	39%

Although there were minor changes with the introduction of the new IA Rulebook, including the explicit requirement for certain PFBs to establish a separate IA unit, the last two columns of the table contain data according to both versions of the Rulebook, as the previous Rulebook was only in force from October. Further information on the changes to the IR regulations can be found in [3.1 Improvement of the PIFC regulatory and methodological framework](#).

The DBBs at central level¹⁴ with an established function IA unit cover about 93% of the total planned expenditure and budget expenditure of DBBs of the RS for 2023. The mentioned budget also includes the budgets of the IBBs, which are subordinate to the DBBs at central government level. In addition, as in the previous reporting period, the Ministry of Foreign Affairs, the Ministry of Economy, the Ministry of Environmental Protection, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography, the Ministry of Rural Welfare, the Ministry of Science, Technological Development and Innovation, the Ministry of Tourism and Youth, and the Ministry for Public Investment still do not have a functional IA unit.

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

APV has established a functional IA unit which performs the functions IR DKBS and IKBS APV.

When it comes to LSG group, which consists of cities and municipalities, the conclusion is that the situation in cities is significantly better than in municipalities. Twenty three of a total of 28 cities¹⁵ have a functional IA, which is an increase compared to last year accounting for 95% of the total expenditures realised of this group in 2023. A significant increase was observed in the municipalities, so that there are 51 municipalities with functional IA, which together cover 50% of the expenditures realised for this PFB category in 2023.

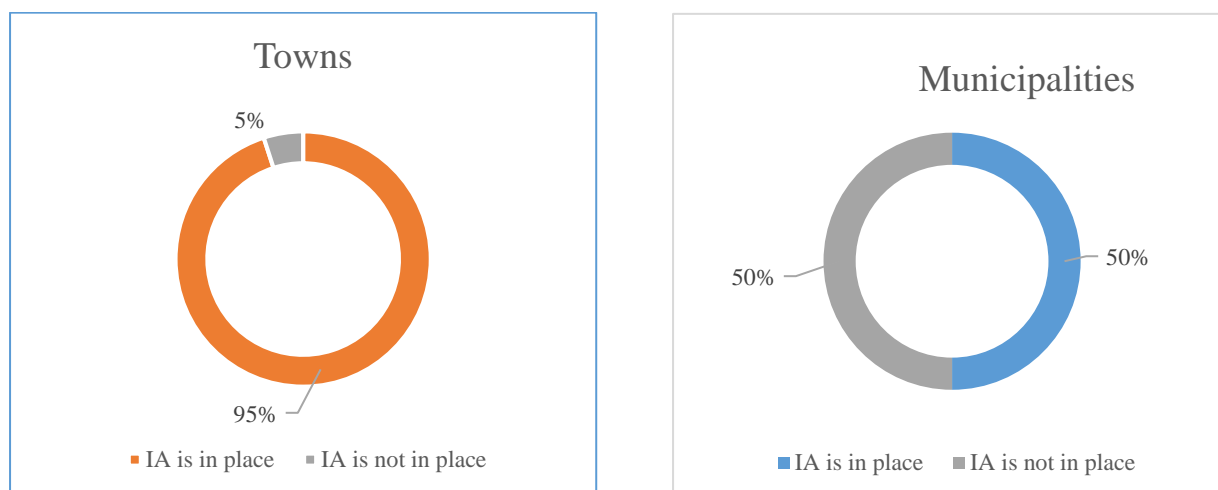
The towns of Leskovac, Jagodina, Kikinda and Smederevo have not established a functional IA.

The following Figures show the IA functions of the cities and municipalities in 2023.

¹⁴DBBs at the central level: National Assembly, Presidency, Government, governmental offices, ministries, judiciary bodies, special organisational units and independent bodies. This category is presented without administrative districts.

¹⁵Excluding cities from the territory of the AP K&M.

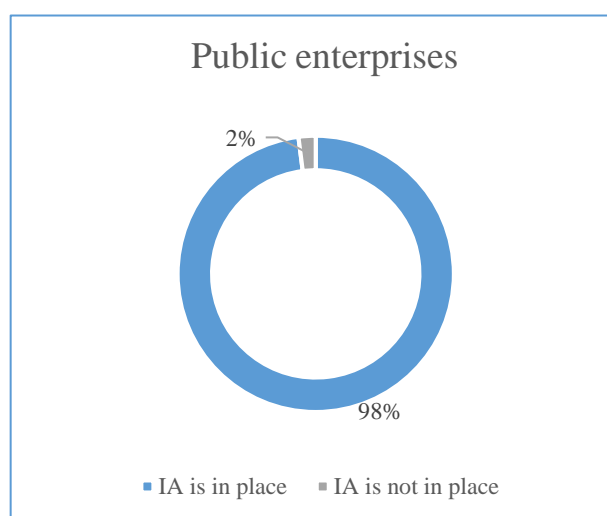
Figures 6 and 7 Coverage of the IA function of the cities and municipalities in 2023



Of the total of 48 PEs and capital companies at central level in Serbia that perform a public interest activity subject to the Law on Public Enterprises, 30 have a functional IA, which represents 62% , and the total revenues coverage for 2023 of this category is 98%, as shown in Figure 8.

Figure 8. Coverage of total revenues of PEs by the IA function in 2023

Looking at the group of the most important PFBs, Table 6 shows, where applicable, the staffing status of IA units in PFBs that are required to have an independent internal audit function with at least three auditors under the current regulations of IA. Compared to the previous year, a decrease in the number of staff in the IA units was recorded. Considering that 62% of the IA units set up do not have a minimum number of internal auditors, their engagements cannot cover a sufficient number of business areas that fall within the organisation's remit.



From the analysis of the data presented, the following can be concluded:

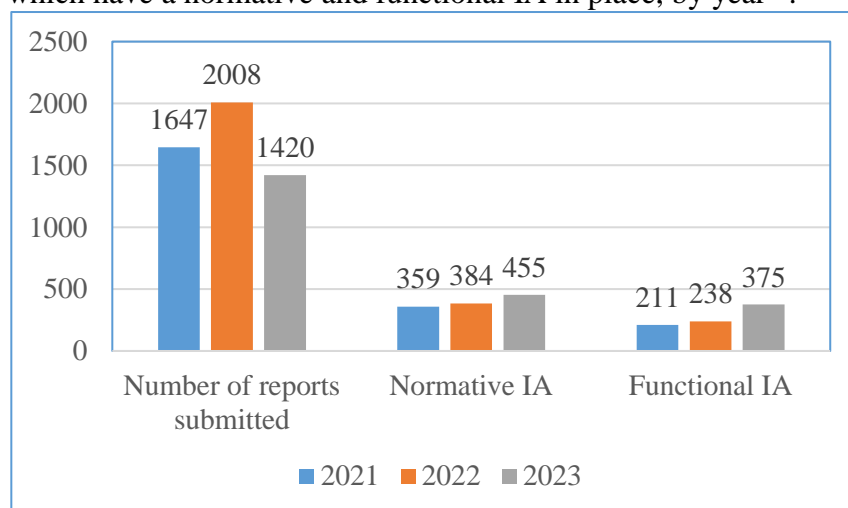
- The category of OMSIs and AP Vojvodina comply with the prescribed number of internal examiners according to the old IA Rulebook. According to the new IA Rulebook, 3 out of 4 OMSIs and AP Vojvodina now fulfil the prescribed number of internal auditors;
- In the category of ministries with administrative bodies in composition, 35% of IA units are staffed with at least three auditors. In 2023, the number of filled IA positions in this category decreased by 3 percentage points compared to the previous year. Nine ministries do not have a single internal auditor.

- According to the IA reports received, 86% of cities have a functioning IA, which is an increase compared to the previous year. In accordance with the IA Rulebook, towns are obliged to have a fully staffed IA unit, but 32% do not fulfil this obligation;
- In the category of PEs at central level, 14 are obliged to establish an IA unit under the old IA Rulebook and 9 of them have fulfilled this obligation. Under the new IA Rulebook, 11 are obliged to set up an IA unit and 8 of them have fulfilled this obligation. This represents a decrease compared to the previous year.
- Other DBBs, as well as municipalities, do not have a satisfactory coverage by functional IA.

2.2.2 The Internal Audit Function

In 455 PFBs, IA is normatively implemented and it is functional in 375. A functional IA is one that has at least one employed internal auditor and has performed at least one audit engagement during the reporting period.

Figure 9. The number of IA reports submitted and number of PFBs which have a normative and functional IA in place, by year¹⁶.



The figure 9 shows the number of IA reports submitted and IA functions established at PFBs. For the year 2023, there is a noticeable increase in the number of functionally established IA units, particularly in the category of municipalities and beneficiaries of the RFHI funds.

[Annex 3 - Overview of the establishment of IA at PFBs](#) provides a detailed overview of the number of beneficiaries by different categories of PFBs in the group of PFBs with established IA.

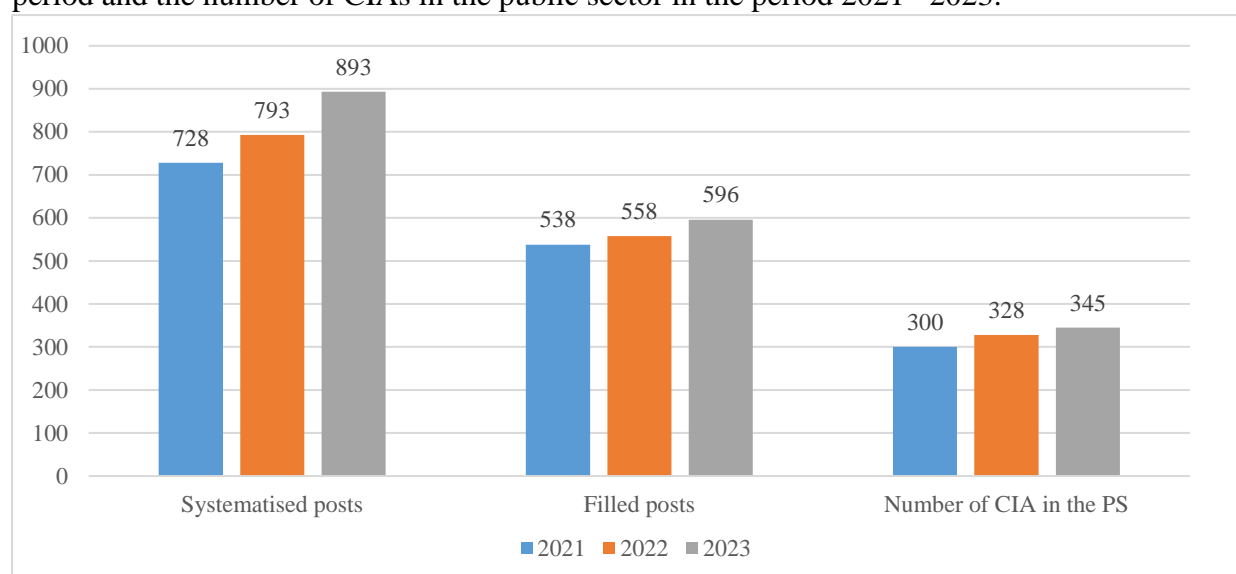
Table 7. The number of PFBs that submitted IA reports and established IA with systematised and staffed internal auditor positions in 2023¹⁷.

PFBs	Reports submitted	Normative IA	Functional IA	Classified working posts	Post filled out
Central Level	715	258	231	565	361
Local level	705	197	144	328	235
Total in the RS	1420	455	375	893	596

¹⁶ The number of IA Reports submitted does not account for the reports of the educational institutions. They are separately observed in this Report.

¹⁷ The number of reports submitted for the year of 2023 does not take into account the reports submitted by educational institution, which were covered the last year.

Graph 10. The number of systematised and filled posts in IA at PFBs in the period and the number of CIAs in the public sector in the period 2021– 2023.



Graph 10 illustrates the number of systematised and filled positions for internal auditors at PFBs for the years 2021, 2022, and 2023, as well as the number of CIAs in the public sector for these years.

The data presented shows that the IA function is normatively established at 455 PFBs, representing an 18% increase in 2023 compared to the previous year. In addition, 375 PFBs have established the IA function, which is a 58% increase compared to 2022.

It can also be noted that the number of systematised posts increased by 12% and the number of filled posts increased by 7% in 2023 compared to 2022. Overall, all indicators show a positive trend in the development of the IA function in the past period. However, a decline in the number of internal auditors can be observed in the categories of ministries, OMSIs and other DBBs at central level. The main causes are the natural turnover of internal auditors and an insufficient influx of new staff.

Of the 596 internal auditor positions filled, 345 public sector internal auditors have become CIAs, which corresponds to a certification rate of 58%.

Table 8. Total number of PFBs that have normatively established IA with systematised and filled posts in 2021, 2022 and 2023

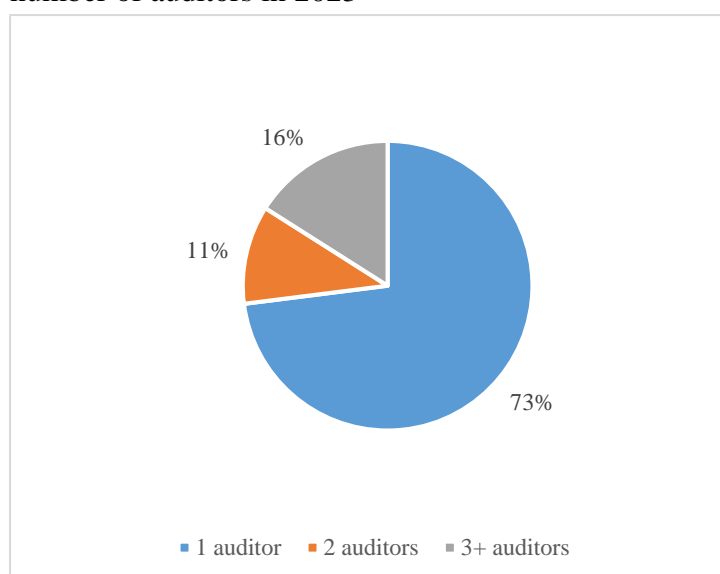
	Number of PFBs with normative IA	Number of PFBs with functional IA	Classified working posts	Post filled out	Number of CIAs in the public sector
Total in the RS in 2021	359	211	728	538	300
Total in the RS in 2022	384	238	762	559	328
Total in the RS in 2023	455	375	893	596	345

As shown in Table 9, according to the IA reports received, in 455 PFBs where the IA function is normatively defined, in 33 of cases an IA unit was established, in 50% an internal auditor was systematised, in 3% the IA function was established through agreements with other PFBs that have an IA unit, and in 14% a joint IA unit was established or individuals were contracted to conduct audits. It can be observed that the dominant way of setting up the IA function is through the employment of an internal auditor, and the setting up of IA through an agreement on auditing by the IA unit of another PFBs or an agreement on the establishment of a joint unit is not sufficiently represented.

Table 9. Number of PFBs with normatively established IAs, by IA setup in 2023

IA setup modality	Number of PFBs
IA Unit	147
Agreement on the implementation of IA by another PFB	14
Joint IA unit	2
Internal auditor	228
Other (outsourcing internal auditors under a service contract)	64
Total:	455

Graph 11. Percentage of PFBs with established IA function, by number of auditors in 2023



Out of 375 PFBs that have established IA functionally, 319 of them employed internal auditors. In the mentioned figure, 73% of PFBs have established the IA function with one internal auditor, 11% with two internal auditors, and 16% with three or more. Compared to the previous year, the number of employees in IA units has decreased significantly, indicating recruitment challenges due to factors such as retirement, transfer to other work posts or leaving the organisation.

The most frequently cited reasons for having only one employee responsible for the IA, or for unfilled internal auditor positions include employment restrictions, a shortage of highly qualified staff, low salaries in the public sector, competition from the private sector and natural attrition.

The main challenges in setting up IA is the recruitment of internal auditors or redeployment of existing staff, for whom PFBs are responsible. In this regard, the CHU will continue to analyse the causes and make appropriate proposals to solve this problem

The requirements from Standard 1300 - Quality Assurance and Improvement Programme cannot usually be met because the IA units are not adequately staffed. In 50% of the established IA units, the manager of the IA unit has developed a programme to assure and improve the quality of IA activities, and an internal assessment is carried out by 46% of the IA units. Vacant posts, i.e. an employee in the IA unit and the vacant position of the head of the IA unit, were cited as reasons for not implementing the programme to ensure and improve the quality of IA activities and internal evaluation of IA.

The IA Rulebook stipulates that the head of the PFBs can form an audit committee as an advisory body for internal control and internal audit issues. Since a specific law requires the PEs to form an audit committee, the total number of audit committees established is in this PFB category. The audit committee as an advisory body for IA issues has been established in 29 PEs and companies at the central level.

2.2.3 Planning and Evaluation of Performance

According to the IA Rulebook, IA is conducted on the basis of the strategic plan and annual work plan approved by the head of PFB and the individual audit engagement plan approved by the audit manager.

At the end of each audit engagement, an audit report is prepared which includes a summary, the objectives and scope of the engagement, findings, recommendations and conclusions, which may include comments from the head of the audited entity.

2.2.4 Overview of Performed Assurance Services

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

Table 10. Number of planned, follow-up, implemented and unimplemented audits in 2023, by type of PFB

PFBs		Number of assurance services in 2023			
		Planned assurance services	Follow-up assurance services (on demand)	Implemented assurance services	Unimplemented assurance services ¹⁸
Central Level	Ministries with administrative bodies in the composition	85	7	88	4
	OMSI	41	7	42	6
	Other DBBs	49	3	35	17
	IBBs	44	3	35	12
	PEs at the central level	187	5	175	17
	Other PFBs (excluding PEs)	175	6	158	23
	Beneficiaries of RHIF	132	24	104	52
	Total	713	55	637	131
Local level	LSG DBBs	192	18	160	50
	LSG IBBs	5	4	2	7
	Other PFBs (PUCs, etc.) whose founder is the local government	191	19	160	50
	Total	388	41	322	107
Total in the RS		1101	96	959	238

In 2023, according to the reports submitted on the work of IA, a total of 1101 assurance services were planned, 96 follow-up assurance services were started at the request of the Head of PFB, 959 assurance services were carried out, while 238 planned assurance services were not carried out (20% of the total number of planned assurance services¹⁹).

The IA reports identify the following most common reasons for the deviation from the execution of the annual work plan of IR in 2023:

¹⁸ Engagements that were either not implemented or were in progress at the date of reporting.

¹⁹ The number of planned assurance services includes assurance services that were subsequently planned on demand.

1. reduction in the number of staff in the IR and departures of internal auditors to other positions;
2. insufficient maturity of IA (newly established IA unit);
3. internal auditors are still in training.

Table 11. Overview of the number of assurance services by year

Year	Total number of assurance services in 2021, 2022 and 2023		
	Planned assurance services ²⁰	Implemented assurance services	Unimplemented assurance services ²¹
The total in 2021	1103	863	240
The total in 2022	1329	948	381
The total in 2023	1197	959	238

Figure 12 Implementation of the annual assurance services plan

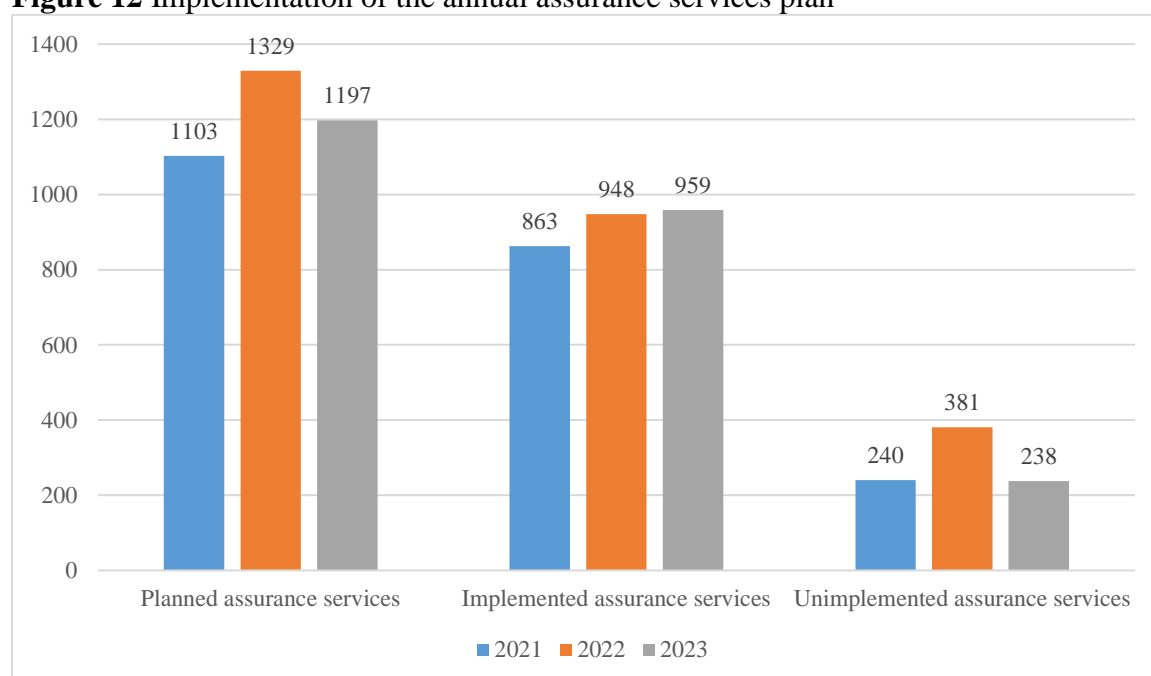


Table 12. Relative changes in the number of assurance services compared to the previous year over the three-year period

Year	Planned assurance services	Implemented assurance services	Unimplemented assurance services
2021	4%	21%	-31%
2022	20%	10%	59%
2023	-10%	1%	-38%

²⁰ The number of planned assurance services includes assurance services that were subsequently planned on demand.

²¹ Including ongoing audits.

As shown in Graph 12 and Tables 11 and 12, a significant decrease in the number of assurance services not provided was observed, which could indicate an improvement in the IA planning process.

2.2.5 Status of Internal Audit Recommendations

The internal auditors made a total of 6121 recommendations to improve business processes and reduce identified risks to an acceptable level. The number of recommendations made fell by around 6 compared to the previous year.

Table 13. Overview of the number of recommendations, by area and by year

Area of recommendations ²²		Number of recommendations in 2021	Number of recommendations in 2022	Number of recommendations in 2023
1.	Internal Rules and Procedures	↑3169	↑3195	↓2954
2.	Planning	↑327	↓265	↑306
3.	Incomes and revenues	↑136	↑142	↓84
4.	Public procurement and contracting	↓405	↑495	↑574
5.	Employees, salaries and fringes	↓363	↑494	↓382
6.	Payments and transfer of funds	↑194	↓163	↑200
7.	Accounting records and financial reporting	↓584	↑708	↑748
8.	Information system	↑272	↓226	↑236
9.	Recommendations of the main business activity of PBFs	↑693	↑800	↓637
TOTAL		↑6143	↑6488	↓6121

Table 13 shows that the number of recommendations related to information systems (a new trend in auditing) and public procurement and planning has increased.

The data suggests that IA is increasingly supporting the organisation's management in the planning and execution of audit services across all business areas. This shift in focus illustrates the transition from basic PFBs activities to support and management processes.

²² The areas and nature of the recommendations correspond to the official forms of IA reports submitted by the PFBs.

Table 14. Implemented and unimplemented recommendations by PFB category in 2023 in absolute and relative figures

No.	PFBs	Number of recommendations	Recommendations implemented	Unimplemented recommendations
1.	Ministries with administrative bodies in the composition	1099	709 (65%)	390 (35%)
2.	OMSIs	157	151 (96%)	6 (4%)
3.	Other PFBs	126	42 (33%)	84 (67%)
4.	IBBs	198	137 (69%)	61 (31%)
5.	PEs at the central level	1231	904 (73%)	327 (27%)
6.	Other PFBs (excluding PEs)	679	356 (52%)	323 (48%)
7.	Beneficiaries of RHIF	522	295 (57%)	227 (43%)
Total at the central level		4012	2594 (65%)	1418 (35%)
1.	LSG DBBs	1280	631 (49%)	649 (51%)
2.	Other PFBs (PUCs, etc.) whose founder is the local government	811	338 (42%)	473 (58%)
3.	IBBs LSG	18	18 (100%)	0 (0%)
Total at the local level		2109	987 (47%)	1122 (53%)
Total in the RS		6121	3581 (59%)	2540 (41%)

Table 14 shows the recommendations provided and implemented in 2023. Of the total 6121 recommendations made in 2023, all PFBs implemented a total of 3581 recommendations, representing 59% of the total recommendations made. Since this indicator speaks of the implementation of recommendations in the same reporting period in which the recommendations were made, it is also necessary to take into account recommendations made at the end of the reporting period whose implementation will objectively only be possible in the next reporting period. The percentage of non-complied recommendations is 41%. The main reasons for non-implementation of recommendations are limited human resources capacity of the auditees, lack of attention in the auditee, lack of time and human resources to implement the given recommendations, insufficient commitment of management and staff, and failure of the auditee to submit reports on implemented recommendations in accordance with the signed plans for implementation of recommendations.

Looking at the individual categories of PFBs, it can be seen that the OMSIs continue to show a positive trend in the implementation of recommendations. The 96% implementation rate of recommendations (an increase of 11 percentage points compared to 2022) reflects OMSIs' management's high awareness of the importance of IA, its reports and its recommendations for both management and the organisation as a whole.

The highest percentage of unimplemented recommendations is found in ministries with administrative bodies in their composition as well as in the DBBs in LSGs and other PFBs

(such as PUCs) whose founder is the local government. This indicates an insufficient understanding of the need and importance of addressing identified weaknesses in business processes.

2.2.6 Internal Audit Consulting Services

Audit processes of the provision of consulting services are carried out in the areas of risk management, control and management processes, and the content of the audit plans and the method of reporting are determined in advance with the Head of the PFBs. The International Standards for Professional Practise of IA explicitly define audit engagements for the provision of advisory services. The standards provide that the IA manager should consider accepting consulting services based on the contribution of those services to improving the organisation's operations, enhancing risk management and adding value to the organisation, and all accepted consulting audit services must be included in IA 's work plans.

Table 15. Overview of consulting services provided, by PFB in 2023

No.	PFBs	Number of consulting services in 2022	Number of consulting services in 2023
1.	Ministries with administrative bodies in the composition	16	23
2.	OMSIs	0	18
3.	Other DBBs	23	22
4.	IBBs	4	8
5.	PEs at the central level	30	27
6.	Other PFBs (excluding PEs)	21	19
7.	Beneficiaries of RHIF	68	55
Total at the central level		172	172
1.	LSG DBBs	42	30
2.	LSG IBBs	0	1
3.	Other PFBs (PUCs, etc.) whose founder is the local government	32	75
Total at the local level		74	106
Total in the RS		246	278

Table 16. Overview of consulting services in the period 2021-2023

Year	Number of completed consulting services
2021	355
2022	246
2023	278

Based on the IA reports submitted, 278 IA consulting services were provided in 2023, a decrease of about 13% from the previous year. The number of consulting services has remained the same, while it has increased in the case of PFBs at local self-government level. The increased number of IA consulting services at PFBs indicates that awareness of the importance of counselling, i.e. the benefits of counselling, has increased.

The IA report also contains a section on the internal auditors' opinion of the established level of the FMC during the reporting period. According to the reports submitted, the greatest weakness was found in the area of control activities, followed by risk management, and the least weakness stems from the control environment element. Most of the weaknesses identified relate to the lack of establishment, inadequacy and non-compliance with the business procedures.

2.2.7 Internal Audit Function Quality Review

The CHU conducted a quality review of IA 's operations at six PFBs in the period from 1 October 2022 to 30 September 2023. The consolidated report on the IA activity quality review was submitted to the Minister of Finance and published on the website of the Ministry of Finance.

The quality review was performed in the following PFBs:

- Ministry of Construction, Transportation and Infrastructure;
- Ministry of European Integration,
- Ministry of Mining and Energy;
- Ministry of Internal and Foreign Trade,
- the Town of Užice,
- the Town of Novi Sad.

The review covered compliance with the requirements for the establishment of IA, audit coverage, competence and training of IA, functional and organisational independence of IA, IA charter and code of ethics, knowledge of IA standards, IA strategic and annual plans, implementation of IA methodologies in audit engagements, IA risk management, internal quality control, need for future training and membership of professional associations.

The review of the quality of the work of the IA of the Town of Užice was conducted by a team led by CHU using the peer review method, in which the CIA in the public sector of the Ministry of Public Administration and Local Self-Government, the City of Belgrade and PE “Beogradskih Elektrana” Belgrade participated.

All PFBs, included in the review, set the IA function by defining the workplace for the IA in the regulations on internal organisation and systematisation of workplaces in accordance with the IA Rulebook. All have systematised internal audit (IA) units with three or more internal auditor posts, of which only the cities have at least three posts filled. The vacant posts are due to a lack of suitable staff and low salaries.

During the review, internal audit positions were vacant in two ministries because the employees who previously held these positions had terminated their employment. As a result, three ministries have only one internal auditor and one ministry has two internal auditors.

It is necessary for the PFBs to allocate personnel for IA tasks according to their capacity to maintain the continuity of this function, ensuring that it can effectively serve as a tool for managers to support organisational management.

IA established at the PFBs included in the review are functionally and organisationally independent units reporting directly to the head of the PFBs, as prescribed in the regulation on the internal organisation and systematisation of workplaces. The IA reports directly to the head of the PFBs and is directly accountable to him/her for its work. The plans of the IA, the work of the IA and the reports on the internal IA carried out and on the work of the IA are separate and independent from other parts of the organisation.

All IA units have an internal audit charter signed by the head of the PFBs and the head of the IA unit, which clearly defines the rights and duties of the head of the PFBs and the internal auditors. The charters are published on the intranet, i.e. on the internet pages.

The IA Code of Ethics has all internal audits signed by the internal auditors. Codes of ethics are published on the organisation's intranet or website. The internal auditors of the PFBs included in the audit apply the working methodology of IA and are familiar with the IIA.

Managers of the PFBs approved both strategic and annual IA plans.

When preparing plans, internal auditors consult with top management, but usually verbally at meetings or through electronic communication (e-mail) and do not always have an audit trail for the conclusions reached. In some cases, due to a lack of explanation, the relationship between the choice of topic and audit subject in the annual plans and strategic plan of the IA is not clear.

Certain limitations were also expressed in the IA's individual plans, where there was a change in the staffing structure due to the departure of experienced internal auditors and the recruitment of new auditors involved in the training process.

When preparing plans, it is necessary to document each step in the preparation of the plans and make the adopted plans available to PFBs' managers. When preparing the plans, consultations with all senior managers. In addition, the planned audit-time for the consultancy assignments must be shown. In this way, the awareness of the function of IA is raised to a higher level within the organisation and contributes to strengthening the awareness of all managers and employees of the need to implement all activities in the internal control system.

While working, internal auditors should follow working methodology from the IA Rulebook in the public sector. Each individual audit engagement is carried out on the basis of a prepared plan and an audit report is prepared for each engagement, which should be supported by working papers. Some IA units have been found to have deficiencies in linking working papers, mostly when audit files are created in mixed paper and electronic form. The storage of audit documents in electronic form is also not fully guaranteed.

In the observed period, IA units did not provide any consulting services.

Internal control of the quality of IA's work is carried out through constant supervision by the head of the IA unit and periodic reviews. IA units with multiple staff members, the constant

supervision is implemented through a regular work, whereas the units with an insufficient number of internal auditors within the IA unit, mostly omit this procedure or only formally implement it (the head of the IA unit is also the auditor who performed the audit) and is not consistently formalised and documented. Furthermore, no programme has been developed to ensure and improve the quality of work and no regular self-assessments have been carried out. Internal auditors express the need for training as part of the annual plans. In direct communication, during the review, they expressed the need for practical training for performance audits and IT system audits, and also the need for direct exchange of experience with colleagues from other countries. They also pointed out that they were often prevented from attending certain trainings because the organisations' budgets did not include funds for this purpose.

In order to improve the quality of the work of IA it is necessary:

- that the PFBs provide a staff member for the IA affairs within the limits of their staffing possibilities in order to ensure the continuity of this function
- document each step in the preparation of the plans and make the adopted plans available to all PFBs' managers.
- improve the connection and storage of working documents when audit files are created in mixed paper and electronic form;
- consistent implementation of internal control over the quality of IA work.

2.2.8 Recommendations and Proposals for the Further Development of IA given by PFBs

The most frequently mentioned proposals and suggestions for improving the work of IA in the individual annual reports are mainly:

- to continue and strengthen the education, additional training and professional development of internal auditors through the organisation of seminars, training courses and workshops, as well as through professional literature;
- to organise a greater number of training sessions through the CHU to provide more opportunities for continuous professional development of internal auditors;
- to increase the exchange of experiences and good business practises with colleagues from the region through cooperation with the CHU, domestic and foreign experts, international and national institutions and associations;
- to strengthen the promotion of IA and raise awareness of its importance, especially among heads of PFBs;
- for the CHU to systematically consider all factors relating to the filling of posts for internal auditors and the retention of existing staff;
- to consider improving the financial status of internal auditors taking into account the degree of their responsibility, the complexity of the business and the working conditions;
- to amend the Rulebook on professional development of certified internal auditors in the public sector regarding the unequal evaluation of the performance of internal auditors in IA units and independent auditors;
- to launch an initiative to amend the law or other laws in the field of civil servants' remuneration to bring internal auditors in the public sector on an equal footing with SAI in order to recognise the importance and role of IA in the public sector;

- to increase the number of CHU mentors so that internal auditors, after completing theoretical training, are assigned a mentor who conducts two practical trainings with them to speed up the certification process.

The PFBs proposal is that it is necessary for the CHU to allow internal auditors to accumulate the prescribed points for organised professional development, as the CHU has limited resources for independent funding of training.

The CHU has recognised the importance of continuous improvement of the CIA in the public sector and under the PMF 2021-2025, an activity is envisaged to prepare and conduct training for internal auditors through the Continuous Professional Development Programme for Internal Auditors in the Public Sector.

In the proposals for training, i.e. conducting workshops and seminars, a smaller number of PFBs have indicated the area where additional training is needed.

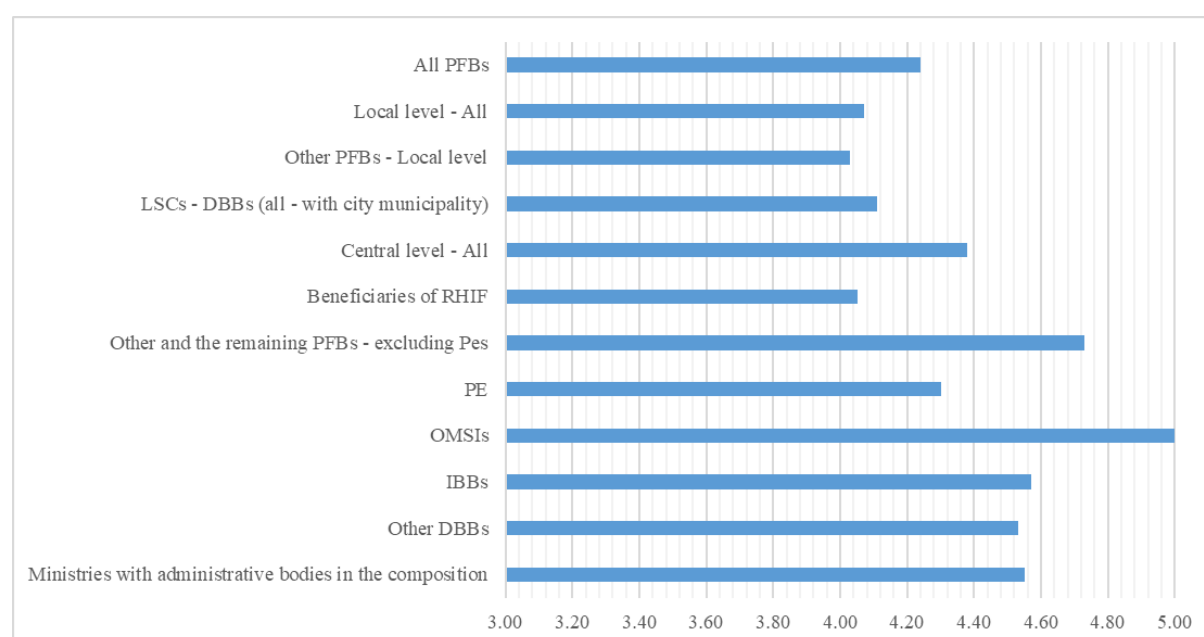
The PFBs state that it is necessary to prepare the annual work plan of the internal auditors and to coordinate with the annual work plan the education and training plan for the internal auditors. In accordance with the risk assessment and the annual work plan based on it, it is also necessary to identify and specify the needs and direction of development of IA in terms of acquiring new knowledge to ensure the achievement of the objectives of IA and the rational and efficient use of resources.

2.2.9 IA Status from the Perspective of PFBs

The new segment of the IA report for 2023 relates to questions about perceptions of the managers of the PFBs of the status of the IA function in their own organisation and activities to improve it.

As Figure 13 illustrates, the average rating of the perceived contribution of IA to achieving the organisation's objectives is high (4.24) and is invariably higher than 4 in all of the PBF categories observed. Overall, the central level institutions rate the contribution of IA higher than the local level ones, and in this respect the OMSI category stands out with the highest rating of IA contribution. This and other reports suggest that management sees IA as a valuable function. This is encouraging and can serve as an incentive for further improvement of IA in the public sector, especially in organisations where it is not yet established or does not have sufficient capacity.

Figure 13. Evaluation of the contribution of IA to achieving the organisation's objectives



In PFBs that have an established IA function, at least according to their managers, adequate staff capacity is in place in 63% of cases. It should be noted that only 30% of ministries with administrative authorities and one in four OMSIs believe that the organisation has provided an adequate number and appropriate structure of staff for IA tasks. In the past year, 11% of PFBs with the established IA function have hired additional internal auditors (only 15% of ministries with administrative bodies in composition). There was slightly more activity at the local level during the reporting period, leading to an increase in adequate staff capacity.

It should be reiterated that the above data only refers to organisations that have the IA function established. When looking at PFBs that have not established this function, the situation cannot be described as adequate.

Given the history of the inadequate staffing capacity in the IA reported in this report over the years, we have endeavoured to examine the possible causes of this problem in more detail.

The high evaluation of the contribution of IA suggests that the insufficient number of internal auditors in the public sector is not due to a lack of motivation within the PFBs to fill these positions, but rather to other factors.

The categories of PFBs where the greatest shortage of internal auditors was identified have planned in their plans to fill these posts and are making active efforts in this regard. As for ministries with administrative bodies in the composition, 85% of organisations plan to hire new internal auditors in the coming period. The same is planned by 75% of OMSIs.

Internal auditors receive a certificate when working in the PFBs, but it seems that the PFBs are not sufficiently aware of this fact. Although it is virtually impossible to find certified internal auditors in the public sector labour market, about 40% of the PFBs still require certification as

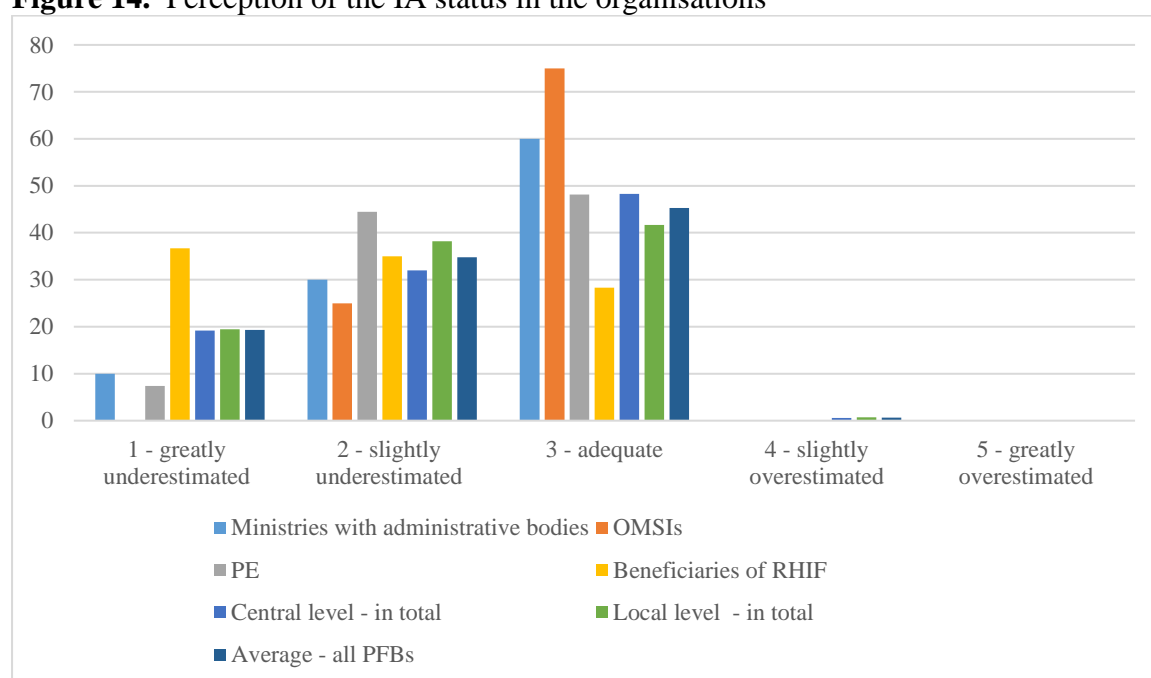
a hiring requirement, making it even more difficult to find suitable staff. This trend is more pronounced at the central level than at the local level.

The impression remains that action is needed to tackle this practise of 'unnecessary self-limitation' when filling internal auditor posts. Although the CHU has already addressed this issue and produced materials to assist in the successful search for suitable IA staff in organisations, more remains to be done.

We also looked at the status of internal auditors in terms of title and associated salary compared to other positions in the organisation, taking into account the expertise required, the complexity of the work and the authority required.

Figure 14 shows the percentage of PFBs in each category that selected one of the five responses offered regarding the status of IA within the organisation. The desired result is that the vast majority of all PFBs categories choose answer 3, indicating the appropriate status of the IA within the organisation.

Figure 14. Perception of the IA status in the organisations



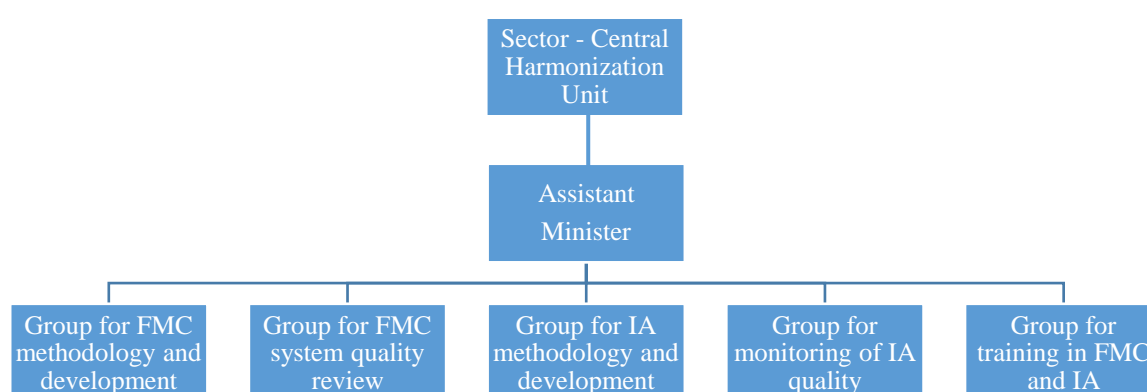
Less than half (45.25%) of all PFBs state that the status of IA within their organisation is appropriate. In most other cases, the status is underestimated, with almost no instances where it is perceived as overestimated, which could be a reason for the insufficient attractiveness of this role. We found that internal auditors employed by RHIF beneficiaries have the least favourable status in their organisations, which warrants further analysis.

From our observations, we can conclude that the status of internal auditors needs to be improved. With this in mind, the CHU will continue to work actively in the coming period to improve the labour status of internal auditors in the public sector.

III ACTIVITIES AND PROGRESS ATTAINED

In this part of the report, we focus on the third pillar of the PIFC, in particular on the activities in which the CHU has been involved over the past period and the progress made in these areas.

The CHU represents the third pillar, which is institutionally part of the MoF and performs government administrative tasks related to the harmonisation and coordination of FMC and IA in the public sector. At the end of June 2024, the CHU employed 11 staff on indefinite contracts, including the Assistant Minister, while 3 staff members were employed on a fixed-term contract.



The CHU is either responsible for the implementation or the main partner for all parts related to the PIFC and management responsibility, and therefore reports regularly on the progress in the mentioned areas in the framework of:

1. Public Administration Reform Strategy of the Republic of Serbia for the period from 2021 to 2030 with the accompanying Action Plan for the period from 2023 to 2025,
2. Public Financial Management Reform Programme for the period from 2021 to 2025 with the accompanying Action Plan,
3. Programme for Improving Public Policy Management and Regulatory Reform for the period from 2021 to 2025 with the accompanying Action Plan,
4. Programme for the Reform of the Local Self-Government System the period from 2021 to 2025 with the accompanying Action Plan

In addition to working on the mentioned planning documents, CHU also performs regular tasks such as: the continuous improvement of the regulatory-methodological framework, the certification of internal auditors and the training of PFBs staff, the monitoring of changes in international standards and principles and best practises in the field of PIFC.

During the reporting period, the entire PIFC area was continuously strengthened, with a focus on implementing the established system as well as updating and further developing it.

In order to increase the coverage of the IA function, the regulations in the area of internal auditing were amended to achieve a greater impact given the limited number of internal auditors. The changes adopted are also intended to speed up and simplify the certification process for internal auditors in the public sector.

In addition to the work on the changes to the regulations, the past year was characterised by the commitment of the CHU employees to modernising training, which included the introduction of a new concept for basic training in the FMC and IA. Video training intended for managers, FMC coordinators and internal auditors has been prepared to familiarise as many public sector employees as possible with the area of internal control.

The good practise of organising one-day training courses in the FMC for employees and managers at PFBs was continued. This enables employees to participate in training sessions that are partly tailored to their organisation and to clarify any doubts they may have about the establishment and development of the system.

The FMC report form was improved in the past period by making changes to the structure and method of completing the questionnaire. Feedback from the PFBs indicates that it is now clearer to them how they can assess the implementation of the COSO principles in their organisations and identify weaknesses that need to be addressed in the coming period. In connection with the above-mentioned changes to the internal audit regulations, the reporting forms on internal audit activities at the PFBs have also been optimised. The forms have been adapted to the IA's current modalities, making it much easier and faster for the PFBs to complete the reports and process the data.

Among the activities that have attracted attention in the past period and are valuable for the CHU staff is the review of the quality of the FMC system and the work of the IA units at the PFBs.

The CHU conducts ongoing promotional activities through electronic and written media, organises meetings and training sessions to raise awareness of the importance and obligation to establish an internal control system, and publishes guidance to assist in the implementation, understanding and self-study of the internal control system. These resources are available on the MoF website.

As in previous periods, the CHU continued to focus on organising training for PFBs.

With the support of the SCTM (through the *EU Exchange 6* programme) and the RELOF 3 project, two workshops were held at the end of the year for internal auditors at central and local level, at which CHU representatives presented the changes to the internal control regulations. The aim of the workshops was to help internal auditors familiarise themselves with the changes to the regulations and see how they were applied in practise in their organisations. A similar workshop/meeting with the same objective was also held for internal auditors of institutions at central level. It was organised by the CHU.

In addition, the CHU regularly monitors the implementation of the recommendations from the EC Progress Report and the CAR recommendations from last year.

According to the Annual Progress Report for 2023²³ for Chapter 32, the Republic of Serbia is moderately prepared in this Chapter, with limited progress made in this reporting period, particularly in the ongoing implementation of the PIFC.

The status of the EC's recommendations as well as more detailed information can be found in [Annex 6 - Recommendations from the EC Serbia Report 2022годину](#) of this document.

Of the total number of PFBs that submitted reports, 77.58% stated that they were familiar with the content of the recommendations to further develop and improve the FMC system in the public sector made in the CAR for the past year. However, the implementation of the recommendations regarding the improvement of the risk management area, the additional allocation of adequate resources for the development and improvement of the FMC system and the regular updating of the AP for the establishment and development of the FMC system is not sufficient and further improvements are needed in this area.

In the context of the previous CAR recommendations related to the PFBs, 69% of the PFBs that submitted an internal audit report stated that they are familiar with the content of these recommendations, while 61% stated that they are working on their implementation

The status of the EC's recommendations as well as more detailed information can be found in [Annex 7 - Recommendations from the CAR on PIFC for 2022](#) of this document.

3.1 Improvement of the PIFC Regulatory and Methodological Framework

The amendments to the IA Rulebook and the Certification Rulebook entered into force on 13 October 2023.

The amendments to the IA Rulebook introduced changes to the organisation and implementation of internal auditing at PFBs. These changes have increased the coverage of the IA units and the overall scope of the internal audit function in the RS. Internal audit is now organised differently in the first line of the DBBs and follows the departmental principle at the central government level and at the local government level. A new way of establishing the IA of certain PFBs has also been introduced, in that the IA is carried out by the IA of the responsible DBBS at the central level. The IA units of the DBBs conduct the audit of the PFBs in their area of responsibility primarily on the basis of the risk assessment of the PFBs, which is defined in the IA charter, as well as on the basis of the risk assessment of the business processes. In addition, the threshold for the number of employees as a prerequisite for setting up a separate, functionally independent organisational unit for IA was raised to 500 employees.

These changes have led to better coverage of many small beneficiaries (small in terms of number of employees and available budget). They have ensured a higher quality of work, increased efficiency and compliance with IA standards and have also had a direct impact on improving the status of internal auditors within the organisation and facilitating the mutual exchange of experience and training. In view of the systemic nature of the above changes, their implementation was prepared through direct communication with internal auditors and the preparation of guidelines published on the website of the MoF.

²³

With the changes to the Rulebook for Certification, the pool of mentors has been expanded. Professional support for candidates during the training to become certified internal auditors in the public sector can now be provided by authorised IAs from the IA units as well as external mentors who have completed CHU training and are on the established list of mentors. In addition, the duration of practical training for IA work has been reduced from two audits performed to one, ensuring a more efficient and faster certification process for internal auditors in the public sector.

The Guidelines for the Provision of Consulting Services were developed to improve the work of IA. These Guidelines govern how internal audit at PFBs provides consulting services. They contain prepared forms to document in a standardised fashion all activities performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The Guidelines cover the planning of engagements, the process of providing consulting services and the monitoring of engagements.

In the second half of 2023, the CHU prepared a series of documents for internal and external mentors while working on the adoption of amendments to the internal auditing organization. These documents form the methodological basis for the implementation of innovations in the certification system.

As part of the 2023 annual reporting on the FMC and IA the PFBs annually send to CHU, the questionnaires used for the self-assessment of organisations for FMC and IA were amended and improved. The structure and completion process of the FMC report has been revised. This enables beneficiaries to better understand the underlying issues behind the development of the COSO principles, to more clearly assess their application within their organisation and to identify weaknesses in their FMC systems. The updated FMC report now requires PFBs to provide statements about their organisation that demonstrate the application of the COSO framework principles. This makes the FMC report a more effective tool for managing the internal control system. PFBs can use it as a checklist to determine the status of the FMC, identify weaknesses and then make decisions on the activities to be undertaken to improve the system. With the new report, the PFBs have more clearly indicated which parts of the system particularly need to be reviewed and updated/improved. The FMC report for the 2022 reporting period was prepared. It proved to be a very successful action as the PFBs responded favourably, resulting in a higher reporting rate.

Based on the number and percentage of the PFBs of this category that took part in the CAR, a fully adjusted FMC report for educational institutions was prepared for the 2023 reporting period, taking into account the specifics of these organisations and generally uniform functioning of these IBBs.

Amendments to the Rulebook in the area of internal audit, which relate to the organisation and manner of establishment and thus to a different coverage of internal audit and a partial concentration of the function on the DBBs according to the departmental principle, formed the basis for a significant change to the IA report, which forms the basis for the reporting period for 2023. The IA report highlights the modalities of the establishment, the relationship between planning and implementation of IA, as well as the recommendations made and their implementation monitoring.

3.2. Improvement of the Managerial Accountability Concept

This is a fundamental principle in the PIFC and was introduced into the system by the BSL and elaborated in detail in the FMC Rulebook. It also represents an important pillar of the public administration reform. The responsibility of managers manifests itself in two basic forms: legal responsibility (compliance) and responsibility for performance (results).

The measures and activities under the PAR Strategy, in particular Specific Objective 6, aim to create the right environment and conditions for progress in accountability and transparency.

As part of the Programme for Improving Public Policy Management and Regulatory Reform for the period from 2021 to 2025, the introduction of analytical units at national level was planned. Support for this initiative included the development of Guidelines for the Establishment, job descriptions and the necessary competences for staff.

In terms of managerial accountability, activities are planned to produce analyses, map the current situation in public administration and formulate concrete recommendations for three key elements (delegation of responsibility, clear separation of accountability among institutions and performance measurement at institutional level).

Recently, the Operational Group for the Improvement of Managerial Accountability was formed under the leadership of GenSec. This group continuously and proactively supports the implementation of the relevant tasks outlined in the PAR Strategy. It is the successor to the informal Friends of managerial accountability Group, which has been working more intensively in this area since the end of 2019. The focus of this Group over the past period focused on developing a comprehensive situation analysis and guidelines (roadmap) for defining systemic solutions in the legal and institutional framework of RS in relation to managerial accountability. The analytical report was prepared with recommendations to improve managerial accountability in the RS public administration.

During the reporting period, some steps were taken to improve managerial accountability in the state administration, but concrete results in the areas of managerial accountability and performance-based management are still pending.

The Working Group for the managerial accountability in the State Administration was formed in September 2023 and numerous workshops were held as part of the preparation of the Roadmap for Managerial Accountability.

3.3 Trainings

In November 2023, the CHU organised and conducted two Basic training sessions in FMC. A total of 140 participants received a certificate of participation in the training (76 participants received a certificate at the first training session and 64 participants at the second).

The basic training in FMC was modernised and improved.

As for the one-day training sessions for managers and/or public sector employees organised and conducted by the CHU at the request of the PFBs, six one-day workshops were held in 2023, specifically:

- Public Broadcasting Service of Serbia (heads of organisational units and employees - 21 participants);
- Joint Stock Company for the Management of Public Railway Infrastructure “Infrastruktura železnice Srbije” a.d. (Head of organisational units and employees - 31 participants);
- Directorate for Civil Aviation of the Republic of Serbia (heads of organisational units and employees - 12 participants);
- Ministry of Finance, Treasury Administration (heads of organisational units and employees - 45 participants);
- Ministry of the Interior - two cycles of training sessions (managers of organisational units and employees, 116 participants in total for both cycles), and
- Republican Pension and Disability Insurance Fund (managers of organisational units and employees – 123 participants).

The total number of participants in the aforementioned one-day training courses was 348.

A basic training course in IA was organised and held in April 2023. 73 participants received a certificate of participation in the training, which can continue the process of training internal auditors to obtain the title of CIA in the public sector.

Video Training Sessions

In 2023, the CHU created and recorded three video training sessions as part of the project “Support to Public Administration Reform under the PAR Sector Reform Contract”, implemented by KPMG with financial support from the EU:

- Video Training - FMC for Managers
- Video Training - FMC for Coordinators
- Video Training - Introductory Training for Internal Auditors

These training courses are published on the NAPA distance learning platform. Recognizing the significant need for training, especially among the PFBs managers, and the complexity of the subject matter the managers needs to be familiar with, the CHU has aimed to prepare modern, concise, professional, and relatively short training sessions tailored to the managers' needs. These courses are designed to be accessible to them at any time.

As in previous periods, the CHU continued to focus on organising training for PFBs. In 2023, with the support of the “Public Finance Reform – 2030 Agenda“ project and in cooperation with German development cooperation implemented by GIZ, the CHU organised training sessions aimed at improving the knowledge and skills of internal auditors. These training sessions are part of the programme for the continuous professional development of internal auditors. In the second quarter of 2023, a training session was held in “Competences for the work of internal auditors in the public sector and tools for assessing competences”. In the fourth quarter of 2023, training sessions were held that consisted of two parts. The first part of the

training sessions related to the topic “Provision of internal audit consulting services”, while the second part covered the topic “Risk assessment for internal auditors in the public sector”. The training sessions were organised in the following cities/towns: Belgrade, Niš, Kragujevac and Novi Sad.

For the PFBs at the local level, the information seminars held by the CHU with the support of the SCTM (EU Exchange Programme 6) in February 2023 to present the changes in the FMC report form and how to fill it out. And similar hybrid and online training sessions were held for central level institutions in cooperation with the GIZ project.

The cooperation of the CHU and the NAPA also continued in 2023, so that a number of trainings from the field of PIFC were again proposed as part of the NAPA training programme for managers and employees for local and central level officials.

In accordance with the nominated programme, a number of training sessions (for a total of 424 participants) were conducted by the NAPA in 2023, namely:

- Financial Management and Control - online training attended by 70 participants;
- Basics of managerial accountability - online training - 188 participants,
- Public sector auditing - 68 participants
- Financial management and control in the public sector - 60
- Financial management and control in the local self-government - 38

3.4 Certification of Internal Auditors

During 2023, two examination cycles were held, during which a total of 49 candidates attained the title of certified internal auditor in the Civil Service. The examinations were held in June - (15 candidates) and December 2023 - (34 candidates).

3.5 Continuous Professional Development of Certified Internal Auditors in the Public Sector

The Professional Development Rulebook lays down the fields and forms of professional training for certified internal auditors in the public sector, and the criteria for the recognition of professional training. This Rulebook prescribes that certified internal auditors in the Serbian public sector are to submit a professional development report for the previous year to the CHU by 31 January each year. The public sector CIA must achieve at least 50 professional development points in a year, at least five of which must be through organised professional development and that the public sector CIA who fails to meet the requirements of the Rulebook shall explain in the report the reasons for not meeting the professional development requirements.

If the CIA in the public sector is absent from work for more than half a year (for health reasons, maternity leave, etc.) or is assigned to tasks on IA for less than half a year, he/she does not submit a report for that year. Then, by 31 January of the current year for the previous year, the CHU is to receive a notice of inability to meet the professional development requirements of an approved internal auditor in the public sector using the Form 2, which is part of the above-mentioned Rulebook.

A certified public sector internal auditor who enters into employment with another PFB as an internal auditor during one calendar year is required to submit information about the change of employer to the CHU using the Form 3 within 15 days of the date of the change.

Records of CIA professional development in the public sector are maintained by the CHU and published on the CHU/MF website.

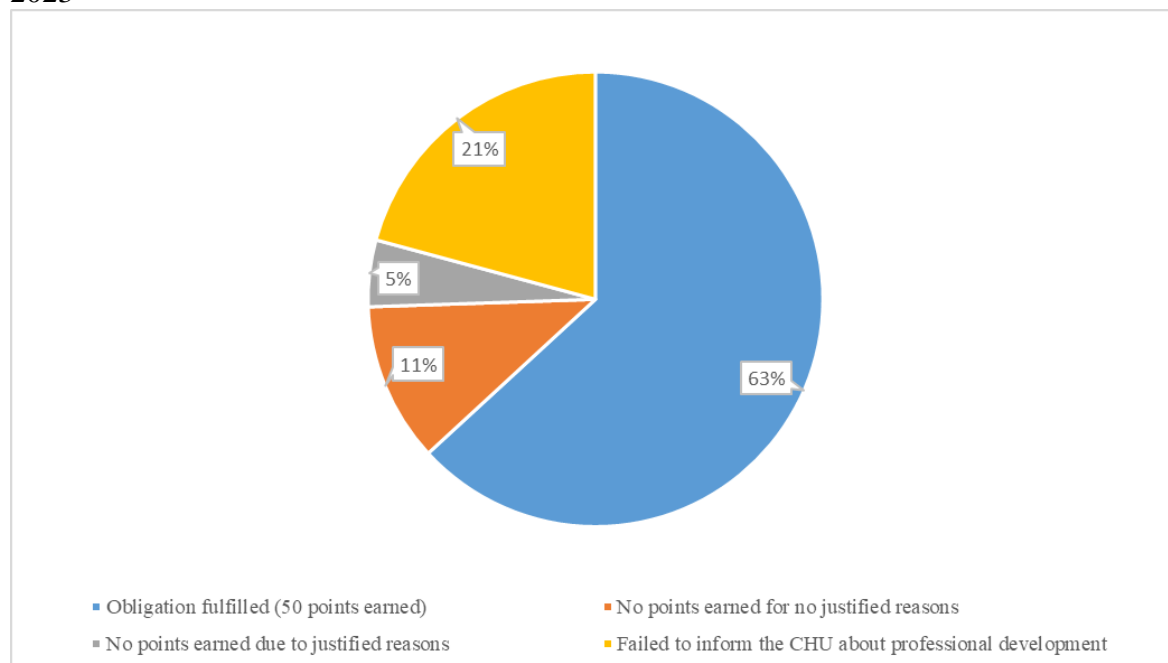
Since its inception, the CHU has certified 599 CIAs in the public sector. The total number of public sector CIAs performing their IA duties by 31 December 2023 is 345.

For 2023, 292 public sector CIAs have informed the CHU for professional development (Form 1, 2 or 3). Of this number, 266 public sector CIAs are actively performing IA tasks.

Of this number of active public sector CIAs (266), 226 have fulfilled the continuous professional development obligation, i.e. they have accumulated at least 50 points in one year. 40 of them did not meet the required number of points, with 18 of them stating that they could not meet this obligation in the prescribed manner. 79 CIAs in the public sector did not comply with the obligation to report professional development to the CHU.

Information on change of employer was submitted by 5 public sector CIAs.

Figure 15. Presentation of the CIA's professional development in the public sector for the year 2023



In order to ensure continuous professional development of the CIA in the public sector, the PMFR 2021-2025 foresees an activity related to preparation and delivery of training for internal auditors through the Continuous Professional Development Programme for Internal Auditors in the Public Sector. The programme will provide training for internal auditors in areas recognised as important for continuing professional development. These trainings will be free of charge for auditors and will facilitate them in acquiring at least the minimum points required.

3.6 PIFC System Quality Review in PFBs

Quality reviews of the FMC system and of the performance of IA units at PFBs have become a regular activity of the CHU to which significant resources are devoted. Given that they provide insights that are significant for FMC and IA, these quality reviews are presented in this report ([2.1.9 Reviewing the Quality of the FMC System](#) and [2.2.7 Internal Audit Activity Performance Review](#)). Apart from the specific recommendations for the PFBs in which the quality of the work of the IA and the FMC system was reviewed, both activities are valuable for the CHU staff, who in direct contact with the PFBs can see more clearly the scope of their educational activities and can convince themselves on the spot of the objectivity of the reports they receive from the PFBs.

3.7 International Cooperation and Projects

The donor community continuously supports the PIFC sector by implementing activities that ensure that this sector continues to improve.

In 2023, numerous activities in the field of PIFC were implemented with the support of the following projects:

- **The “EU PFM Facility”** project implemented by the UNDP is an important support for further development in the field of PIFC. In this reporting period, a special questionnaire form for the annual reporting on the status of PIFC in schools was created with the support of this project.
- The project **“Public Finance Reform - 2030 Agenda 2030”** is a very important partner and provides continuous support in the implementation of the planned activities from the strategic documents. As in the previous period, the CHU is dedicated to the organisation of training sessions for PFBs and, in cooperation with German development cooperation implemented by GIZ, will organise training sessions in 2023 with the aim of improving and acquiring the knowledge of internal auditors. These training sessions are part of the programme for the continuous professional development of internal auditors.
- The project **“Support to the Ministry of Finance under the Sectoral Reform Agreement for the Public Administration Reform Sector”** implemented with the support of KPMG was finalised. Its objective was to modernise the training sessions and training materials in the field of PIFC. During 2022, work began on creating a new, more modern concept for the basic training courses organised by the CHU, and in 2023 video training courses were prepared for managers, FMC coordinators and internal auditors. In addition, the Guidelines for the Provision of Consulting Services and the analysis of the coherence of the PIFC regulations with other horizontal regulations were prepared.
- The successful cooperation with the **RELOF3** project supported by the Swiss government, which aims to support local self-governments in applying the principles of good governance and supervision of local public enterprises, was continued. Project activities aim to strengthen management accountability and performance management, improve lines of accountability and control in the LSG system, and develop new, innovative models, tools and programmes to improve public financial management. An innovative tool, the managerial accountability Index, was developed for the local level

and is to be further improved. In cooperation with the SCTM, workshops were held for internal auditors to familiarise them with the changes to the regulations in the area of internal auditing.

- Support for the establishment/development of the FMC and the establishment/development of the IR function at the local level is also provided by the **EU Programme Exchange 6** - Increasing the credibility of planning, programme budgeting and control of the execution of public expenditures at the local level in Serbia. The main responsible institutions at national level are MFIN and PPS, as well as MPALG. As in the previous phases, the SCTM has the role of implementation partner and direct responsibility for the implementation of the planned programme activities. Under the third component of the programme - better application of PIFC in local self-governments and linkage to local planning and budgeting frameworks - a public call was issued to local governments to provide them with the support for the establishment or improvement of the FMC system and/or IA functions. For the PFBs at the local level, the information seminars held by the CHU with the support of the SCTM in February 2023 with the aim of presenting the changes to the FMC reporting form and how to complete it.
- An important partner of the CHU is also SIGMA, with which the cooperation continued in 2023.

The trainings conducted in coordination with the CHU partners are detailed in part [3.3 Trainings](#).

IV WEAKNESSES AND RECOMMENDATIONS

The CHU identifies weaknesses and recommendations for the further development and improvement of the PIFC based on the submitted reports of the PFBs, the findings obtained during the FMC and IA quality review process and other regular activities.

4.1 Financial Management and Control

Despite the obvious progress, it is necessary to point out the following perceived **weaknesses** of the FMC system in the Serbian public sector:

- 1) Although the most important institutions in the RS (which also account for the majority of the RS budget) regularly report to the CHU on the status of their FMC systems, the regulations require all PFBs in the RS to report to the CHU. From the group of priority PFBs, some PEs did not report on the status of their systems to the FMC.
 - 2) The analysis of results by level and category of PFBs still shows that most PFBs at the central level have better results than at the local level in most cases.
 - 3) The number of recipients of RHIF who have created maps of business processes is still not satisfactory (44.30%).
 - 4) The situation is unsatisfactory when it comes to the adoption of the risk management strategy and the preparation of the risk register at the other DBBs at central level (51.28% and 47.44%).
-
- 1) In terms of *the control environment*, the data indicates that the biggest problem lies in the management of human resources. The mechanisms for attracting and retaining competent staff are not sufficiently established and developed in the period observed. Work must also be done to further establish the system of individual accountability, especially in the areas of performance measurement, incentive mechanisms and the avoidance of excessive workloads of employees.
 - 2) Although some progress can be seen in all the principles of the risk assessment element, it must be insisted that the whole process is accepted as a continuous activity and carried out regularly. The mechanism for identifying and responding to the risks of change in a timely manner is still not recognised as an important factor in achieving the organisation's objectives, nor is the delegation of responsibility for predicting and identifying relevant changes in the external environment.
 - 3) *Control Activities* It has been recognised that there is a need to improve the evaluation of the effectiveness and efficiency of different types of control measures. It is also necessary to take advantage of the different types of controls that are available. In addition, a relatively low percentage of PFBs was noted in the recording and reporting of exceptions, i.e. cases of authorised deviations from established procedures. We would like to point out that there is a need to improve the implementation of procedures that ensure the continuity of the functioning of the IT infrastructure, i.e. protection against data loss, etc.

- 4) *Information and Communication* It was still noted that the recording of information on non-standard behaviour (suspicions of irregularities, complaints, etc.) needs improvement, as the percentage of those who have this system is relatively low, which additionally leads to poor results in the analysis of such behaviour by people who are independent in relation to the behaviour that is the subject of the report. There is a need to further improve the information provided to the management/supervisory boards when it comes to obtaining information on the results of the self-assessment of the FMC and the assessment of the FMC carried out by external organisations.
- 5) The average rating of the *Monitoring* and evaluation element is, as in previous years, the lowest, which is mainly due to the inadequate establishment of the IA. The percentage of PFBs reporting on exceptions, i.e. measures taken in case of frequent justified deviations from procedures, is low. Notwithstanding the unsatisfactory level of establishment of the IA function, it is still noticeable that information on the weaknesses of the FMC system is not sufficiently available to management and others in the organisation. An insufficient percentage of PFBs analyse the information on the shortcomings of the FMC system, and appropriate solutions are not even proposed in time in the form of changes to procedures, abolition or introduction of new control activities, etc. Finally, it should be emphasised that the timely elimination of deficiencies in the FMC system and the monitoring of the functioning of this process is not a given in a large number of organisations.

The following **recommendations** are made to address the weaknesses identified:

1. For the continuous improvement of the FMC system, it is necessary for the PFBs continue to prepare and regularly update the AP regularly. Specifically, this means that in addition to the self-assessment questionnaires that PFBs fill-in annually, they should identify, among other things, the segments of the FMC system that should be improved in the coming period based on the scores obtained.
2. There is a need to continue to work continuously on improving risk management using the guidance and tools available on the CHU website. In this context, the PFBs should adopt a risk management strategy. For the ongoing risk management process, it is necessary to establish and regularly update a risk register and to develop and implement control measures that reduce risks to an acceptable level. This is particularly important given that this obligation is enshrined in the FMC system regulations.²⁴.
3. It is still necessary to pay attention to the issue of ensuring adequate potential of human resources and to continue to develop a sustainable policy of recruitment and retention and to improve the system of promotion, reward and professional development.
4. It is necessary to improve the implementation of procedures that ensure the continuity of IT infrastructure operations, i.e. protection against data loss, etc.
5. There is a need to improve the way in which organisations deal with the remediation of identified deficiencies in the system of internal controls.

²⁴ Article 8 of the FMC Rulebook

6. There is a need to improve the segment of recording and analysing/evaluating information on non-conforming behaviour (suspected irregularities, complaints, etc.).
7. All PFBs should use the FMC Manual and the extensive methodological tools in FMC and managerial accountability prepared and published by the CHU.
8. In addition, it is necessary that the PFBs refer their managers and employees to the video trainings prepared by the CHU, which can be found on the NAPA platform.
9. There is a need for DBBs (primarily line ministries and LSGs) to be more involved in the function of improving the monitoring and improvement of the FMC system of their IBBs.

Recommendations to specific PFBs:

10. It is necessary for the said PE to start the process of annual reporting on the state of the PIFC to the CHU: Nature Park “Mokra Gora” d.o.o.; Water Management Company “Sava” Šabac; Water Management Company “Šajkaška” d.o.o. Novi Sad and Water Management Company “Erozija” Niš.
11. As far as the ministries are concerned, it is necessary to strengthen the establishment of the FMC system in the coming period. In this sense, it is necessary that the individual ministries prepare the following basic documents:
 - **Business Process Maps:** The Ministry of Family Welfare and Demography, the Ministry of Education and the Ministry of Science, Technological Development and Innovations.
 - **Risk Management Strategy:** The Ministry of Culture, the Ministry of Science, Technological Development and Innovations, the Ministry for Public Investment, the Ministry of Family Welfare and Demography, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Internal and Foreign Trade and the Ministry of Foreign Affairs.
 - **Risk Register:** The Ministry for Public Investment, the Ministry of Family Welfare and Demography, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Science, Technological Development and Inovations, the Ministry of Agriculture, Forestry and Water Management, Ministry of Foreign Affairs and the Ministry of Internal and Foreign Trade.
12. It is necessary for the following PEs to make:
 - **Business Process Maps:** PE “Mreža - Most”, “Državna lutrija Srbije”, d.o.o. Beograd, “Metohija”, d.o.o. Beograd, d.o.o., Tvrdava Golubački grad Golubac, PE “Nacionalni park Kopaonik”, Kopaonik and Sibnica d.o.o. Beograd.
 - **Risk Management Strategy:** “Državna lutrija Srbije”, d.o.o. Beograd, “Srbija voz”, a.d., PE “Nacionalni park Kopaonik”, Kopaonik, Tamiš dunav d.o.o. Pančevo and Sibnica d.o.o. Beograd.
 - **Risk register:** PE “Stara Planina” Knjaževac; PE UCE Resavica; PE “Mreža - Most”; “Državna lutrija Srbije”, d.o.o. Beograd; JSC “Elektroprivreda Srbije”, Beograd, d.o.o. Tvrdava Golubački grad Golubac. “Srbija voz”, a.d., PE “Nacionalni park Kopaonik”, Kopaonik, Kopaonik i Sibnica d.o.o. Beograd

13. In the category of cities/towns, the following cities should draft and adopt:

- **Business Process Maps:** The Town of Loznica, the Town of Zaječar, the Town of Novi Pazar, the Town of Leskovac and the Town of Valjevo.
- **Risk register:** the Town of Smederevo, the Town of Novi Pazar, the Town of Kraljevo and the Town of Valjevo.
- **Risk Management Strategy:** the Town of Novi Pazar

4.2 Internal Audit

In addition to the stable trend in the development of internal auditing, the following weaknesses have been observed:

- in the category of ministries, there was a 3% decrease in the number of employed internal auditors compared to the previous year. Out of a total of 25 ministries, a functional IA unit (at least one report prepared) has been established in 16, and only 7 employ at least three internal auditors, being the minimum prescribed by regulations.
- In the category of cities/towns, 24 out of a total of 28 cities have functional IA, and 9 of these towns/cities have employed at least three internal auditors.
- The number of internal auditors in the established IA units has decreased, especially in the ministries and the DBBs at the central level.
- Currently, 84% of the established IA units have less than three employees, which raises concerns about their ability to fully meet the IA standards.
- The increase in the number of systematised IA positions is higher than the increase in the number of filled positions, indicating that it is difficult to attract and retain qualified staff. In addition, the number of candidates applying for basic IA training has decreased. Furthermore, a further decrease in numbers of internal auditors due to natural attrition is to be expected, considering the age of the employed internal auditors. In addition, there is a tendency among the PFBs to require passing the CIA in the public sector exam as a prerequisite for filling IA positions, although this is not prescribed in the IA Rulebook, which represents an additional limiting factor.
- A significant number of IA units have no quality assurance and improvement programme in place and do not fully evaluate the work of IA apart from regular monitoring by the head of the IA unit. The reasons for such a situation include vacant posts, i.e. one employee in the IA unit or the vacant post of the head of the IA unit, and it is not possible to apply periodical self-assessment;
- A significant percentage of unimplemented recommendations are due to the limited human resources of the auditees and the lack of attention and commitment of their managers and staff of the auditees.

The following **recommendations** are made to address the weaknesses identified:

- In accordance with the IA Rulebook²⁵, the PFBs should harmonise the systematisation, job descriptions and number of staff members for the internal auditor posts and to fill the internal auditor posts. The number of internal auditors required is determined by the PFBs on the basis of the risk assessment, the scope and complexity of the business processes, the volume of assets at its disposal and the number of employees.

²⁵ IR Rulebook, Article 3, paragraph 3 and Article 5, paragraphs 1 and 2.

- Due to the decrease in the number of internal auditors in the established internal audit units and the disproportion between the number of systematised internal auditor positions and the number of internal auditors, it is necessary for the PFBs to immediately initiate the process of reallocating existing staff and recruiting new staff for internal audit tasks. It is not necessary to specify the passing of the CIA in the public sector exam as a necessary condition for the internal audit positions to be filled, as the exam is taken while working in the workplace.
- Heads of internal audit units should adopt a quality assurance and improvement programme and conduct an internal IA performance review in accordance with the recommended existing internal performance review model for internal audit units.
- Considering the large percentage of unimplemented recommendations in all categories of the PFBs except OMSIs, it is necessary to include audits for subsequent verification of the implementation of the given recommendations ("follow up" audits) in the annual work plans of the internal audit.

Recommendations to specific PFBs:

- Ministries, which should have at least three employed internal auditors within the IA unit: The Ministry of Economy, the Ministry of Environmental Protection, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Foreign Affairs, the Ministry for Family Welfare and Demography, the Ministry for Rural Welfare, the Ministry of Science, Technological Development and Innovations, the Ministry of Tourism and Youth, the Ministry for Public Investment, the Ministry of Information and Telecommunications, the Ministry of Agriculture, Forestry and Water Management, the Ministry for European Integration, the Ministry of Mining and Energy, the Ministry of Internal and Foreign Trade, the Ministry of Construction, Transportation and Infrastructure, the Ministry of Public Administration and Local Self-Government, the Ministry of Labour, Employment, Veteran and Social Affairs, the Ministry of Sports.
- Cities/towns which should have at least three employed internal auditors within the IA unit: The Town of Smederevo, the Town of Kraljevo, the Town of Zaječar, the Town of Leskovac, the Town of Valjevo, the Town of Prokuplje, the town of Kruševac, the Town of Kikinda, the Town of Sremska Mitrovica, the Town of Jagodina, the Town of Bor, the Town of Čačak, the Town of Šabac, the Twn of Vršac, the Town of Subotica, the Town of Požarevac, the Town of Pančevo, the Town of Sombor and the Town of Loznica.

CONCLUSION

After years of work on the amendments to two Rulebooks in the area of IA, these finally came into force at the end of 2023. With the aim of optimising the system, these Rulebooks introduced changes to the organisation and implementation of internal auditing at the PFBs and to the certification of internal auditors.

The self-assessment report on the FMC system drawn up by the PFBs is one of the most important tools guiding the PFBs on the path to good practise, and the CHU efforts to improve this particular segment are showing exceptional results. For this tool to fulfil its purpose, it must be accessible and understandable. The reporting form, which was improved last year with this objective in mind, has enabled more accurate monitoring of trends this year.

For this reporting period, a special questionnaire for PIFC reports for educational institutions was created in collaboration with the Ministry of Education. This is a completely new practise in which a specific category of the PFBs is provided with a customised instrument. This has provided the largest group of the PFBs and the most diligent reporters with a more useful and appropriate tool, and it is hoped that this practise will be extended to other categories of the PFBs in the future. Given the recommendation repeatedly emphasised in the CAR that the DBBS (primarily the relevant ministries and LSGs) should take a more active role in improving the monitoring and improvement of the FMC system of their IBBs, collaborative work on this type of customised questionnaire could be an important first step.

In addition, the IA report form has been adapted to the changes in the IA Rulebook. The selection of questions has been adapted to the IA modality used in the PFB, and questions have also been added on management's perception of the IA's contribution to the achievement of objectives and its place within the organisation.

The general conclusion when we look at the results is that progress has been made on almost all the indicators observed and that most of the recommendations from last year's CAR are being implemented. There is still room for improvement, therefore both general and individual recommendations are made, targeting a prioritised group of institutions that should lead and be an example of good practise in the implementation of FMC and IA for the entire public sector in the Republic of Serbia.

The reporting rate for 2023 has increased further.

No less than 3,779 public sector organisations in the Republic of Serbia submitted their FMC reports. The total expenditure and costs of all DBBs at the RS level (ministries with administrative bodies in the composition, judicial bodies, directorates, offices, agencies, institutes, services...) included in the CAR for 2023 account for 99.92% of the total expenditure and expenses of the RS budget for 2023. If we look at the group of priority PFBs individually, we see that the most important institutions report to the greatest extent. This year, all ministries, OMSIs and cities/towns have submitted the report, and in the category of PE only a few exceptions have not done so, while 91.49% have reported on the system of internal controls.

If we look at the organisational establishment of the FMC system, there is a clear progress in the adoption of the AP for FMC (10.07%), the adoption of the risk management strategy

(8.52%) and the creation of the risk register (9.25%). Progress in the creation of business process maps can be seen in the categories of ministries with administrative bodies in the composition (23.33%) and IBBs at central (16.39%) and local level (15.06%). The priority PFBs, which were previously at the forefront, continue to grow in all parameters.

The growth of indicators in the area of delegation of responsibilities for the implementation and development of the FMC system remains evident, with 74.34% of all PFBs that submitted annual reports having appointed a head of the FMC, and 71.92% having formed a working group for the implementation and development of the FMC system.

Increases were recorded in almost all areas. The area of *Control activities* is now the highest rated element of the COSO framework and the principles of this element have improved the most compared to the previous year. This indicates that PFBs are increasingly aware of the importance of control activities in their organisations.

The review of the quality of the FMC system, a regular activity of the CHU, has produced significant results. The most important finding from this activity, which last year focussed on national parks and nature parks, is the recognition that the initiative to form a joint IA for several (or all) PFBs within this group needs to be considered, as the IA plays a crucial role in supporting managers in monitoring and controlling the work of the PFBs.

The introduction of irregularity management in public sector organisations is an important tool for PFBs managers to monitor the FMC system, further optimise FMC processes and reduce the risk of misuse of public funds. In 2023, the largest number of PFBs (91.51%) had no confirmed suspicion of irregularities, while 8.49% of PFBs stated that they had confirmed irregularities. Of the total number of PFBs that had confirmed suspicions of irregularities, 96.77% stated that they were being resolved - of these, 62.90% of irregularities were being resolved within the PFBs, 0.54% were being resolved outside the PFBs and 33.87% were being resolved within the PFBs and outside the PFBs.

The analysis also revealed the main weaknesses for which recommendations were made. It is necessary for the PFBs to continue to create and regularly update the AP for the continuous improvement of the FMC system. Specifically, this means that in addition to the self-assessment questionnaires that PFBs fill-in annually, they should identify, among other things, the segments of the FMC system that should be improved in the coming period based on the scores obtained.

To further improve risk management, the PFBs should introduce risk management strategies at an organisational level. For the ongoing risk management process, they need to create and regularly update their own risk registers.

The biggest challenge the PFBs face with is to ensure adequate human resources. Therefore, it is crucial to focus on developing sustainable mechanisms to attract and retain qualified staff and improve the system for promotion, reward and career professional development.

In view of the increasing digitalisation of work processes, it is necessary to develop and implement suitable procedures to ensure the continuity of IT infrastructure operations and protection against data loss.

The PFBs must improve the process for rectifying any deficiencies identified in the internal control system. Improvements are also needed in the collection and analysis/evaluation of information on non-compliant behaviour (suspected irregularities, complaints, etc.).

In order to improve its FMC systems, the PFBs should utilise the FMC Manual and various methodological tools in the FMC area and management responsibility prepared and published by CHU. In addition, they must refer their managers and employees to the video trainings prepared by the CHU, which can be found on the NAPA platform.

Based on the prepared data on the status of the **internal audit** function for 2023, significant progress can be observed in certain segments. The IA function is normatively established at 455 PFBs, which shows an increase of 18% compared to 2022. In addition, 375 PFBs have established the IA function functionally, which corresponds to an annual growth of 58%.

The highest growth can be observed in the categories RHIF beneficiaries (health-care and pharmacy organisations), and other PFBs at the central government level and in the DBB category at the local government level. The number of classified posts for IA has increased by 12% and the number of internal auditors employed has increased by 7% in 2023 compared to 2022.

Out of 596 employees in IA positions, 345 internal auditors in the public sector have obtained the CIA in public sector certificate, which corresponds to a certification rate of 58%.

The biggest challenge in the area of internal auditing continues to be the insufficient number of internal auditors. This problem is particularly acute in the ministries, where the number of internal auditors has decreased, mainly due to retirements and an insufficient influx of new auditors. The shortage of internal auditors, especially in organisations with only one auditor, hinders compliance with international auditing standards. Therefore, increasing the number of internal auditors should be a priority in the further development of the PIFC. Due to the decrease in the number of internal auditors in the established internal audit units and the disproportion between the number of systematised internal auditor positions and the number of internal auditors, it is necessary for the PFBs to immediately initiate the process of reallocating existing staff and recruiting new staff for internal audit tasks. It is not necessary to specify the passing of the CIA in the public sector exam as a necessary condition for the internal audit positions to be filled, as the exam is taken while working in the workplace. In addition to meeting the necessary minimum requirement of at least three internal auditors in the PFBs, which should have an IA unit, the PFBs should also bring systematisation, job descriptions and the number of employees in the positions of internal auditors in line with their audit universe. Increasing the number of internal auditors, especially in ministries, will not only improve compliance with IA standards, but also increase the contribution of internal auditors to the achievement of their organisations' objectives.

In addition, it is important that the heads of IA units adopt a programme to ensure and improve the quality of IA work. They should also conduct an internal assessment of the quality of IA work in line with the recommended model for internal quality assessment of IA units.

Considering the large percentage of unimplemented recommendations in all categories of the PFBs except OMSIs, it is necessary to include audits for subsequent verification of the

implementation of the given recommendations (“follow up” audits) in the annual work plans of the internal audit.

The main objective for the coming period in the field of PIFC should be to improve its implementation within the PFBs. As the body responsible for the PIFC, the CHU will continue its efforts to refine the normative framework and develop innovative tools and trainings for FMC and IA.

In addition, the CHU plans to strengthen direct communication with the PFBs, in particular through counselling and promoting links between the PFBs to advance FMC and the IA function.

In addition, the CHU will focus on raising awareness of the crucial role that the FMC and IA play in the effective management of public funds, the achievement of public sector objectives and the appropriate fulfilment of citizens' needs. Therefore, it is important to emphasise that the commitment of the PFBs, particularly its leaders, remains a key factor in the successful improvement of the PIFC.

ANNEXES

Annex 1. Legal framework and International Standards

REPORTING REQUIREMENTS

Pursuant to Article 83. of the BSL, the CHU in the Ministry of Finance is tasked with consolidating the individual annual reports of PFBs on the status of FMC and IA, and the

finance minister submits the Consolidated Annual Report to the Government.

The procedure for the preparation of the Consolidated Annual Report is prescribed by the Budget System Law and stemming by-laws.

Pursuant to Article 81 of the BSL, the Head of PFB is required to report to the Minister of Finance on the adequacy and functioning of the FMC system by March 31st of the current year, while Article 19 of the FMC Rulebook specifies that the reporting entities are required to report by responding to the questionnaire in the Forms prepared by the CHU.

With regard to the IA, Article 82 of the BSL prescribes that the Head of PFB is obliged to report to the Minister of Finance on the functioning of the IA system in the required manner by 31 March of the current year for the previous year. In addition, Article 32 of the IA Rulebook clarifies that the head of internal audit prepares an annual report on the internal audit activity based on a questionnaire prepared by the CHU and published on the website of the Ministry of Finance. In doing so, the head of internal audit unit is to be submitted the annual report to the Head of PFB by 15 March of the current year for the previous year, while the Head of PFB, in turn, submits the report to the CHU, no later than 31 March of the current year for the previous year.

PIFC PLANNING DOCUMENTS

Strategic framework (planning documents):

- 6) Public Administration Reform Strategy of the Republic of Serbia for the period from 2021 to 2030 and the accompanying Action Plan for the period 2021- 2025 (“Official Gazette of the RS” no. 42/21 and 9/22);
- 7) Public Finance Management Reform Programme for the 2021–2025 period with Action Plan (“ Official Gazette of the RS”, no. 70/21 and 116/23-15);
- 8) Programme for the Reform of the Local Self-Government System in the Republic of Serbia for the 2021–2025 period with Action Plan (“Official Gazette of the RS”, no. 73/2021);
- 9) Programme for Enhancing Public Policy Management and Regulatory Reform with Action Plan for the period from 2021- 2025 (“Official Gazette of the RS”, no. 113/2021).

FINANCIAL MANAGEMENT AND CONTROL

National legislation

In addition to:

- 10) The Budget System Law, ("Official Gazette of the RS", no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corrigendum, 108/13, 142/14, 68/15- other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 - other law and 92/23)
- 11) Rulebook on Joint Criteria and Standards for Establishment, Functioning and Reporting on the System of financial system and control in public sector ("Official Gazette of the RS", no. 89/19),
other regulations relevant to the establishment of the FMC system are as follows:
- 12) Law on Civil Servants ("Official Gazette of the RS" 79/05; no. 81/05- corrigendum, 83/05-corrigendum, 64/07, 67/07-corrigendum, 116/08, 104/09, 99/14, 94/17, 95/18,157/20 and 142/22););
- 13) Labour Law ("Official Gazette of the RS", no. 24/05, 61/05, 54/09, 32/13, 75/14, 13/ 17- CC Decision, 113/17 and 95/18 – authentic interpretation);
- 14) Law on Public Procurement ("Official Gazette of the RS" 91/19 and 92/23);
- 15) Law on Salaries of Civil Servants and State Employees ("Official Gazette of the RS", no. 62/06, 63/06-corrigendum, 115/06-corrigendum, 101/07, 99/10, 108/13, 99/14, 95/18 and 14/2022);
- 16) Law on Salaries in State Bodies and Public Services ("Official Gazette of the RS", no. 34/01, 62/06- other law, 63/06 - other law, 116/08- other law, 92 / 11, 99/11- other law, 10/13, 55/13, 99/14, 21/16 - other law and 113/17 - other law, 113/17 - other law, 95/18 - other law, 86/19 - other law, 157/20 - other law and 123/21 - other law);
- 17) Law on Public Enterprises ("Official Gazette of the RS", no. 15/16 and 88/19);
- 18) Regulation on Reimbursement of Expenses and Severance Pay for Civil Servants and Employees ("Official Gazette of the RS", no. 98/07-consolidated text, 84/14, 84/15 and 119/23);
- 19) Regulation on Budget Accounting ("Official Gazette of the RS", no. 125/03,12/06 and 27/20);
- 20) Rulebook on common bases, criteria, and tasks for the activity of financial departments of direct budget beneficiaries ("Official Gazette of the RS", no. 123/03),
- 21) Rulebook on the standard classification framework and Chart of Accounts for the budget system ("Official Gazette of the RS", no. 16/16, 49/16, 107/16 and 46/17, 114/17, 20/18, 36/18, 93/18, 104/18, 14/19, 33/19, 68/19, 84/19, 151/20, 19/21, 66/21, 130/21, 11/22 and 118/23);
- 22) Rulebook regulating the preparation, compilation, and submission of financial statements of budget beneficiaries, beneficiaries of funds of mandatory social insurance organisations and budget-based funds ("Official Gazette of the RS", no. 18/15,104/18, 151/20, 8/21, 41/21, 130/21 and 17/22);
- 23) Rulebook regulating the use of funds from sub-accounts of the consolidated account of the Treasury of the Republic and/or other accounts, the investment of funds and the reporting on the use and/or investment of funds ("Official Gazette of the RS", no. 101/18).

International principles and standards

The existing legal framework in the Republic of Serbia ensures compliances with most international internal control standards. The FMC Rulebook stipulates that the elements of the

FMC system shall be determined in accordance with international internal control standards and aligned with the Guidelines for Internal Control Standards for the Public Sector issued by the International Organisation of Supreme Audit Institutions – INTOSAI, and the COSO Framework.

INTERNAL AUDIT

Concept and definition

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

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

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

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

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

Legal basis and International Standards

The legal framework that regulates internal audit includes the following:

- 24) Budget System Law, ("Official Gazette of the RS", no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corrigendum, 108/13, 142/14, 68/15-д other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 - other law and 92/23);
- 25) Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector ("Official Gazette of the RS", no. 99/11, 106/13 and 84/23);

- 26) 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 RS”, no. 9/14 and 84/23);
- 27) Rulebook on Professional Development of Internal Auditor in the Public Sector (“Official Gazette of the RS”, no. 15/19);
- 28) The IIA’s International Standards for the Professional Practice of Internal Auditing.

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

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

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

Status and Organisation

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

The decentralised internal audit system requires all public fund beneficiaries to have the internal audit function in place. The IA Rulebook sets out criteria for the establishment of the IA function and stipulates that the National Assembly, the High Judicial Council, the High Prosecutorial Council, the ministries, the Republic Health Insurance Fund, the Republic Pension and Disability Insurance Fund, the Social Insurance Fund for Military Insurance, the National Employment Office and other PFBs with more than 500 employees must set up a separate, functionally independent organisational unit for IA. If the IA is set up as a separate internal audit unit, it must have at least three internal auditors, of which one is the head of the internal audit unit.

Other public fund beneficiaries may establish internal audit as follows:

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

35) by conducting an internal audit by the competent direct beneficiary of the funds of the Republic of Serbia, an autonomous province or a local self-government unit in accordance with the plan of that internal audit unit.

Exceptionally, where there are no conditions for organising an internal audit unit, the tasks of IA unit may be carried out by an internal auditor employed with the PFB, or internal auditor the internal auditor with whom the contract for the performance of these tasks was concluded.

Annex 2. Indicators of the Status of the FMC System

Table 1. Parameters of the establishment of the FMC system observed by PFB categories

ESTABLISHMENT OF THE FINANCIAL MANAGEMENT AND CONTROL SYSTEM (in %)													
	CENTRAL LEVEL								LOCAL LEVEL				
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL	TOTAL - ALL PFBs
Have you appointed an FMC manager?	83.67	100.00	65.38	75.65	86.05	79.09	60.76	72.81	83.61	70.45	82.02	75.84	85.71
Have you established a working group managed by an FMC manager, tasked with introducing and developing the financial management and control system?	79.59	100.00	65.38	73.43	83.72	76.36	56.12	70.08	86.34	64.38	84.86	73.71	85.71
Have you adopted an action plan (plan of activities) to establish a financial management and control system?	63.27	100.00	60.26	65.87	83.72	74.55	49.37	63.41	68.85	62.14	74.76	66.79	85.71
Have you determined the tasks of the persons responsible for financial management and control, working groups, as well as deadlines for their execution?	91.84	100.00	71.79	72.69	83.72	77.27	57.38	71.12	80.33	68.05	80.76	73.62	77.14
Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system?	97.96	100.00	76.92	84.32	95.35	87.27	69.62	81.94	89.07	75.08	89.07	81.44	84.76
Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system?													
Guidelines for management of irregularities	65.31	100.00	46.15	47.42	60.47	53.64	49.37	49.95	58.47	39.62	49.53	45.47	70.48
Guidelines for risk management	80.71	100.00	65.38	65.31	88.37	70.91	58.65	66.42	77.05	52.72	71.29	61.90	89.52
Guidelines for managerial accountability	59.18	100.00	39.74	37.82	55.81	42.73	36.71	40.17	49.73	34.19	43.22	39.25	66.67
Guidelines on delegation system	44.90	75.00	21.79	18.08	41.86	34.55	24.89	23.99	37.16	11.98	25.87	19.98	51.43
Guidelines on FMC for small public funds beneficiaries	24.49	0.00	56.41	43.91	27.91	41.82	31.22	40.08	34.43	48.40	38.80	43.43	24.76
None of the above	6.12	0.00	15.38	16.24	6.98	19.09	27.85	18.16	15.85	24.28	16.09	20.60	5.71
Did the managers and staff tasked with financial management and control attend training in the FMC field organised by the Central Harmonization Unit in the past five years?	55.10	75.00	46.15	18.27	55.81	34.55	27.00	27.38	50.82	24.28	16.09	27.44	58.10
Did the managers and staff tasked with financial management and control attend training in the FMC field not organised by the Central Harmonization Unit in the past five years?	42.86	75.00	50.00	37.27	55.81	50.91	40.93	41.58	65.57	33.39	55.21	44.76	58.10
Your organisation has the following documents													
Risk Management Strategy	73.47	100.00	51.28	68.45	88.37	75.45	68.35	69.05	88.52	57.83	76.97	68.21	84.76
Risk Register	75.51	100.00	47.44	54.24	79.07	70.91	41.77	54.84	75.96	47.92	69.09	58.44	79.05

Business Process Maps	77.55	100.00	53.85	57.01	86.05	74.55	44.30	58.04	80.33	50.80	74.76	62.34	84.76	60.23
Integrity Plan	71.43	100.00	60.26	72.32	79.07	57.27	86.08	73.28	72.13	33.39	63.41	48.13	80.95	60.32
Rulebook on Internal Organisation and Job Classification	100.00	100.00	100.00	98.15	100.00	91.82	97.82	97.89	93.44	90.10	95.90	92.27	98.10	94.93
Mid-term Organisation Plan	48.98	50.00	33.33	15.87	58.14	40.91	27.00	25.59	32.24	13.26	49.84	26.64	51.43	26.12
None of the above	0.00	0.00	0.00	0.92	0.00	2.73	0.00	0.75	1.09	7.76	1.58	4.88	0.00	2.88
Article 21a of the Regulation on principles for internal organization and staff establishment in ministries, special organisations, and government? (to be answered by ministries, their administrative bodies and special organizations)	42.86	/	28.89	/	/	/	/	51.72	/	/	/	/	/	51.72

Table 2. Indicators of the status of the FMC system according to the elements and principles of the COSO framework

1.CONTROL ENVIRONMENT

Principle 1 Organisation is demonstrating its commitment to integrity and ethical values													
	CENTRAL LEVEL								LOCAL LEVEL				
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL	
The management has set the standards of conduct (code of conduct consistent with the organisation's regulations, ethical standards and values)	97.96	100.00	92.31	94.10	88.37	89.09	96.62	93.98	98.91	74.92	85.80	81.88	94.29
Employees, external partners of the organisation and users of services/citizens and are informed about rules of conduct	87.76	100.00	92.31	89.48	74.42	84.55	90.72	88.81	90.16	67.41	78.55	74.25	83.81
Measures are prescribed in the event of non-compliance with the rules of conduct	85.71	100.00	89.74	88.93	79.07	78.18	89.03	87.39	85.25	64.54	72.24	70.07	85.71
Compliance with the rules of conduct is monitored	93.88	100.00	89.74	88.93	74.42	79.09	84.81	86.74	84.15	71.09	76.03	74.60	84.76
Appropriate action is taken for non-compliance with the rules of conduct (examples: Interview, warning, admonition, disciplinary action, dismissal, etc.)	100.00	100.00	93.59	93.54	88.37	86.36	93.25	92.85	88.52	77.80	84.23	81.35	92.38
Trainings on integrity, ethical values and organisational culture are regularly organised for employees and especially for new employees	69.39	100.00	73.08	48.34	51.16	39.09	46.41	50.05	51.91	29.39	33.12	34.10	63.81
The rules define possible conflicts of interest, corruption and courses of action	83.67	100.00	83.33	85.98	83.72	71.82	81.86	83.25	79.78	58.15	70.98	65.28	83.81
Clear rules on whistleblowing have been established to report suspicions regarding the violation of regulations and human rights, the improper exercise of public authority, threats to life, public health, safety and the environment, and the prevention of major damage	89.80	100.00	93.59	87.64	93.02	81.81	83.97	87.02	83.06	69.97	86.12	76.64	91.43
There is a mechanism to report, record in one place and decide upon suspected cases of corruption, fraud, financial reporting errors, irregularities in contracting, mishandling of equipment, misrepresentation and provision of false information, and other irregularities.	75.51	100.00	76.92	72.69	72.09	67.27	70.46	72.15	58.47	53.83	63.72	57.37	70.48
Data on compliance with the Rules of Conduct are analysed regularly and policies, communications, training, prevention and detection mechanisms and actions in the event of breaches of the Rules of Conduct will be updated/improved as necessary.	57.14	100.00	61.54	52.58	46.51	53.64	48.10	51.49	36.61	45.21	36.28	41.30	49.51
Management, through its own conduct, compliance with laws, regulations and internal actions, norms of behaviour, the way it is managing, its professionalism and commitment, etc., acts as a role model for others	93.88	100.00	97.44	94.28	100.00	92.73	91.14	93.89	91.26	86.74	91.80	88.90	98.10
Management has identified adequate resources (competent staff, time, attention, and other resources) for the development of the FMC	73.47	100.00	67.95	63.28	86.05	72.73	48.10	62.75	61.75	59.27	65.62	61.46	78.10
None of the above	0.00	0.00	1.28	0.37	0.00	1.82	1.27	0.75	0.00	3.67	0.95	2.31	0.00

In accordance with the answers given above to Principle 1 (Question 5.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation demonstrates an appropriate commitment to integrity and ethical values:	4.49	5.00	4.31	4.20	4.07	4.05	4.02	4.16	4.16	3.77	3.94	3.88	4.30	4.02
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Principle 2 The supervisory authority/body is independent of the management and monitors the internal control system (FMC) - only PFBs that have a supervisory/management board qualify														
Supervisory authority/body (supervisory/administrative board):	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
exists in your organisation;	/	75.00	2.56	100.00	62.79	66.97	96.62	55.79	/	86.10	95.58	90.84	/	65.57
supervises/monitors the functioning of all FMC components (deals with ethics, resources, goals and plans, risks, controls, reporting, system weaknesses, operations and functioning of the organisation):	/	75.00	50.00	65.25	77.78	63.01	66.81	66.27	/	61.04	55.78	58.41	62.05	/
they are composed of competent persons with complementary knowledge and experience who can objectively and critically analyse the functioning of the organisation;	/	75.00	100.00	71.81	81.49	86.30	74.28	75.21	/	59.93	84.16	72.05	/	71.38
assembles members who are not in a conflict of interest;	/	75.00	100.00	93.44	88.89	95.89	93.45	93.59	/	93.32	94.39	93.85	/	93.52
analyses potential weaknesses and makes suggestions to improve the quality of management;	/	50.00	100.00	76.45	77.79	87.67	76.86	78.08	/	72.73	72.28	72.51	/	74.72
Has formed the Audit Committee<	/	0.00	0.00	3.86	88.89	19.17	4.37	9.78	/	1.86	7.10	4.48	/	5.57
maintains direct communication with internal audit;	/	0.00	0.00	6.95	55.57	26.03	13.97	14.16	/	4.82	18.04	11.43	/	10.79
maintains direct communication with the external audit function;	/	0.00	0.00	7.34	44.44	28.77	8.30	11.97	/	5.01	24.83	14.92	/	11.70
monitors, in particular, areas of high risk (transactions with a high monetary value, complex transactions, etc.);	/	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
none of the above.	/	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
In accordance with the answers given above to Principle 1 (question 5.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation demonstrates an appropriate commitment to integrity and ethical values:														

<p align="center">Principle 3 Management establishes the organisational structure, reporting lines and corresponding competencies and responsibilities to achieve the objectives</p>														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
An organisational structure has been created that is suitable for managing the organisation and achieving its objectives.	95.74	100.00	90.79	90.79	90.08	97.22	95.88	91.08	93.79	84.79	92.23	88.28	90.19	97.94
Clearly defined competences, work areas and responsibilities of the internal organisational units	97.87	100.00	90.79	82.28	97.22	97.22	98.97	93.39	84.91	74.41	91.26	81.64	83.87	93.81
Management responsibilities and the achievement of objectives as well as risk management are defined.	98.36	100.00	80.26	76.37	94.44	83.51	87.22	78.43	83.05	73.91	81.88	77.68	78.19	91.75
Clear horizontal and vertical reporting lines have been established to ensure appropriate exercise of authority and responsibility and adequate flow of information and management of the organisation and achievement of objectives.	87.27	100.00	75.00	70.89	91.67	86.60	74.46	72.73	73.45	63.88	67.64	66.51	70.76	89.69
There is a job description for each position.	97.87	100.00	100.00	97.13	100.00	96.91	98.24	97.38	98.87	90.64	99.03	94.37	96.43	98.97
All employees of the organisation are familiar with their duties and responsibilities.	97.87	100.00	98.68	97.40	100.00	98.97	97.80	97.60	96.05	92.64	98.38	94.83	96.72	97.94
There are clear rules for delegation of authority.	91.49	100.00	78.95	76.86	86.11	84.54	79.30	77.96	80.79	68.39	66.02	69.74	75.35	88.66
Management delegates authority/competence.	91.49	100.00	76.32	74.58	91.67	86.60	86.78	76.97	88.14	72.41	77.02	76.28	76.76	93.81
If necessary, the organisational structure is adapted to new circumstances and identified weaknesses.	80.85	100.00	73.68	67.75	83.33	89.69	85.90	71.18	87.01	63.38	77.99	71.40	71.25	86.60
None of the above.	2.13	0.00	0.00	1.46	0.00	1.03	0.88	1.33	0.56	2.68	0.32	1.66	1.43	0.00
Considering the responsibilities mentioned above to Principle 3 (Question 7.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation's management has established an appropriate organisational structure, reporting lines and adequate competencies and responsibilities:	4.66	5.00	4.62	4.34	4.61	4.49	4.38	4.37	4.40	4.15	4.29	4.23	4.32	4.68

Principle 4 The organisation demonstrates its commitment to attracting, developing, and retaining competent employees														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
The level of knowledge and skills required for each position has been determined.	100.00	100.00	94.74	97.83	97.22	96.91	98.24	97.77	94.92	91.30	97.41	93.63	96.46	96.91
Qualifications, knowledge and previous work experience of job applicants are reviewed.	100.00	75.00	94.74	83.41	86.11	82.47	80.18	83.79	92.66	68.56	61.49	70.48	79.57	91.75
The competencies of staff are assessed regularly.	93.62	75.00	94.74	72.03	41.67	65.98	56.39	70.97	83.05	38.46	36.57	45.20	62.79	67.01
There is an appropriate number and structure of staff.	55.32	50.00	50.00	83.63	52.78	64.95	63.00	78.64	57.63	58.19	55.66	57.38	71.90	57.73
There is an appropriate number and structure of staff.	85.11	100.00	78.95	80.00	72.22	76.29	77.09	79.55	64.97	54.68	54.37	56.27	72.16	77.32
There is a record of training for each staff member.	80.85	100.00	76.32	89.59	72.22	74.23	82.38	87.39	61.58	58.56	55.66	58.39	78.19	76.29
Staff competence development is ensured (training sessions, seminars, study tours, etc.).	100.00	100.00	96.05	94.20	94.44	93.81	89.43	93.91	94.35	69.06	82.85	77.12	88.58	94.85
There is a mechanism to recruit and retain qualified staff.	38.30	25.00	34.21	30.14	25.00	42.27	26.43	30.49	18.64	21.07	19.74	20.30	27.25	25.77
Staff turnover is monitored and analysed, and appropriate action is taken.	72.34	100.00	55.26	40.54	75.00	67.01	53.74	44.68	40.11	29.26	47.90	36.35	42.04	68.04
There are plans and procedures in place in case of turnover and absence of managers and other staff.	61.70	100.00	64.47	68.94	55.56	65.98	63.88	67.88	57.63	47.32	42.72	47.69	61.48	58.76
There is a practise of handing over duties for all positions.	74.47	100.00	64.47	59.08	63.89	70.10	71.81	61.41	61.02	52.01	52.43	53.60	58.93	69.07
Future staffing needs are identified on a regular basis.	76.60	100.00	71.05	63.96	66.67	72.16	78.85	66.34	61.58	42.98	53.07	48.89	60.80	74.23
None of the above.	0.00	0.00	0.00	0.49	0.00	1.03	0.88	0.51	1.13	5.18	0.00	3.04	1.32	0.00
In accordance with the answers to Principle 4 (Question 8.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation manages its human resources appropriately:	4.26	4.00	4.26	4.19	3.94	4.01	3.99	4.17	3.86	3.73	3.68	3.74	4.03	4.00

Principle 5														
The organisation established a system of individual accountability of staff for the performance of assigned FMC tasks														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
Clearly defined individual responsibility of all managers for the achievement of objectives and for the implementation of projects and activities for which they are authorised.	93.62	100.00	89.47	84.50	94.44	92.78	87.22	85.63	87.01	76.92	83.50	80.44	83.99	95.88
Employees are familiar with their work tasks.	97.87	100.00	94.74	97.67	97.22	97.94	97.36	97.56	98.87	93.98	99.03	96.22	97.13	97.94
Criteria for work performance and incentive mechanisms for the fulfilment of work tasks are defined.	68.09	50.00	75.00	51.22	58.33	71.13	56.39	53.77	55.37	33.78	43.69	40.13	49.44	56.70
The effectiveness of work performance measures and incentive mechanisms is regularly evaluated and adjusted as necessary.	65.96	50.00	56.58	37.78	30.56	49.48	35.68	39.15	47.46	21.74	27.51	27.58	35.48	44.33
The work performance of employees is evaluated on a regular basis.	87.23	75.00	90.79	47.48	47.22	57.73	48.90	50.30	80.79	25.75	31.39	36.35	45.87	70.10
Employees are promoted (rewarded/punished) according to the work performance achieved.	80.85	75.00	81.58	48.18	66.67	81.44	56.39	52.44	37.85	29.77	72.17	43.17	49.50	60.82
The promotion (advancement) of employees in the organisation is based on clear and known criteria, taking into account past work performance.	91.49	25.00	92.11	38.16	55.56	62.89	48.90	43.31	64.97	26.59	43.37	37.64	41.51	63.92
Management assesses the level of workload/pressure faced by employees and any excessive workload is redistributed.	76.60	100.00	71.05	54.20	66.67	75.26	59.91	56.90	54.24	45.48	62.46	51.75	51.75	69.07
None of the above.	0.00	0.00	1.32	1.90	2.78	1.03	1.76	1.80	1.13	3.68	0.65	2.40	1.99	1.03
In accordance with the answers to Principle 5 (Question 9.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation has established an adequate system of individual accountability:	4.32	3.75	4.42	3.79	3.72	4.00	3.73	3.82	3.77	3.42	3.65	3.54	3.73	3.88

2. RISK ASSESSMENT

Principle 6 The organisation establishes objectives that are sufficiently clear to enable the identification and assessment of risks associated with those objectives														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSI	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
Strategic goals are aligned with goals from public policy documents.	89.36	100.00	76.32	73.66	100.00	80.41	79.30	75.34	84.75	68.90	81.23	75.00	75.23	92.78
Operational objectives are derived from strategic objectives.	89.36	100.00	80.26	74.91	100.00	83.51	76.65	76.33	78.53	66.56	81.55	72.79	75.20	91.75
The goals are specific, measurable, achievable, realistic, and timely (according to the SMART principle).	87.23	100.00	76.32	60.00	88.89	77.32	66.96	62.99	70.62	53.85	66.34	60.15	62.09	87.63
The objectives are the basis for the allocation of resources.	74.47	100.00	69.74	46.78	80.56	75.26	66.96	51.84	59.32	44.65	64.40	52.68	52.11	75.26
Income and expenditure are projected and planned in accordance with the organisation's established objectives.	89.36	100.00	86.84	89.11	97.22	93.81	94.71	89.92	92.66	88.13	95.15	90.87	90.22	93.81
The organisation determines the acceptable degree of deviation from the established objectives.	59.57	75.00	64.47	55.77	69.44	79.38	65.64	58.32	54.24	54.85	60.52	56.37	57.70	62.89
The objectives are in accordance with laws and other regulations as well as professional standards.	93.62	0.00	85.53	88.73	100.00	94.85	89.87	89.29	90.40	81.61	92.56	86.16	88.29	94.85
None of the above.	2.13	0.00	7.89	4.77	0.00	3.09	3.52	4.55	4.52	7.53	1.62	5.35	4.80	2.06
In accordance with the answers to Principle 6 (Question 10.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation has adequately defined its objectives:	4.45	4.75	4.17	4.08	4.47	4.38	4.11	4.11	4.01	3.89	4.16	3.99	4.07	4.41

Principle 7														
The organisation identifies and analyses risks that may affect the achievement of objectives														
	CENTRAL LEVEL								LOCAL LEVEL					
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL	TOTAL - ALL PFBs	PRIORITY PFBs
There is an identification and assessment of risks that can:														
jeopardise the achievement of operational (business) objectives;	89.36	100.00	78.95	68.29	97.22	85.57	75.77	71.01	75.14	62.88	83.50	70.76	70.93	89.69
lead to untimely, incomplete or inaccurate reporting (financial and non-financial), i.e. lead to reporting not in accordance with laws, regulations and relevant standards (accounting standards, etc.) and the needs of the organisation;	85.11	100.00	77.63	69.81	91.67	85.57	81.06	72.51	75.71	66.22	78.31	71.22	72.10	85.57
lead to non-compliance with laws and other regulations;	91.49	100.00	84.21	80.87	91.67	89.69	87.22	82.38	85.88	73.75	85.11	78.97	81.29	89.69
jeopardise the resources/property of the organisation;	82.98	100.00	75.00	71.38	88.89	87.63	76.21	73.20	75.14	66.39	83.50	72.69	73.04	85.57
none of the above.	4.26	0.00	13.16	14.74	2.78	8.25	9.69	13.51	11.30	20.74	7.12	15.31	14.08	5.15
The identification and assessment of risks is carried out regularly at all levels and in all parts of the organisation.	63.83	100.00	52.63	56.42	56.42	63.89	68.04	57.27	59.89	50.84	55.66	53.69	56.09	62.89
The organisation's management regularly receives information about risks.	70.21	100.00	56.58	61.73	72.22	80.41	69.16	63.46	64.97	56.69	64.72	60.33	62.47	73.20
Risks are regularly discussed in management meetings.	63.83	100.00	56.58	57.94	66.67	80.41	71.81	60.51	59.89	54.85	65.05	58.58	59.89	64.95
Risk assessment implies an assessment of the probability of occurrence and an assessment of the impact of the risk.	76.60	100.00	63.16	56.31	86.11	72.16	65.64	59.05	66.67	48.16	67.31	56.64	58.28	77.32
The most important risks are clearly defined.	76.60	100.00	60.53	59.89	94.44	74.23	66.52	62.09	74.01	54.35	76.70	63.90	62.68	82.47
Management makes decisions on how to respond to risks (treatment, tolerance, transfer/participation, removal/elimination of the risk target) based on the risk assessment, impact, and cost of reducing the risk level.	78.72	100.00	69.74	55.18	80.56	77.32	67.84	58.75	60.45	53.51	66.02	58.21	58.58	74.23
Tasks (powers and responsibilities) are delegated for implementing the response to the risk.	72.34	100.00	63.16	53.98	86.11	74.23	64.76	57.12	65.54	45.65	61.81	53.51	55.97	75.26
Deadlines are set for the implementation of the reconnaissance.	76.60	100.00	63.16	53.98	86.11	74.23	64.76	57.12	65.54	46.65	61.81	53.51	55.97	75.26
The results of activities to reduce the risk to an acceptable level are monitored.	65.96	100.00	60.53	52.79	75.00	67.01	62.56	55.27	59.32	43.65	56.96	50.00	53.60	67.01
Identified risks, their assessment and the chosen risk response are documented (e.g. risk register).	44.68	75.00	43.42	32.30	55.56	48.45	29.52	33.75	37.29	32.44	42.72	36.16	34.51	46.39
None of the above.	8.51	0.00	17.11	17.45	2.78	10.31	9.69	15.95	10.17	24.25	9.39	17.71	16.51	7.22
In accordance with the answers to Principle 7 (questions 11.1 and 11.2) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately defines and assesses the risks:	3.96	4.75	3.72	3.56	4.00	3.87	3.57	3.60	3.57	3.37	3.66	3.49	3.56	3.87

Principle 8 The organisation takes into account fraud risks														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
The risk of intentionally inaccurate and incomplete financial and non-financial reporting is assessed.	85.11	100.00	75.00	63.14	75.00	77.32	68.72	65.35	65.54	65.55	59.55	63.84	64.87	76.29
The risk of unauthorised intentional appropriation, use or alienation of the organisation's assets is assessed.	68.09	100.00	67.11	59.13	58.33	68.04	66.08	60.68	60.45	58.70	57.61	58.67	60.04	65.98
The risk of corruption is assessed.	76.60	100.00	68.42	64.17	66.67	70.10	66.96	65.18	64.97	52.34	58.58	56.18	62.32	70.10
The organization has an integrity plan.	78.72	100.00	61.84	77.45	69.44	65.98	88.55	77.49	76.27	39.13	61.49	51.57	69.26	79.38
None of the above.	0.00	0.00	11.84	8.18	2.78	8.25	3.52	7.59	11.86	16.56	13.92	15.04	9.95	3.09
In accordance with the answers to Principle 8 (Question 12.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately assesses fraud risks:	40.9	5.00	4.07	3.90	3.89	3.87	3.81	3.90	3.67	3.55	3.56	3.57	3.80	3.98

Principle 9														
The organisation identifies and assesses external and internal changes that could significantly affect the internal control system														
	CENTRAL LEVEL								LOCAL LEVEL					
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBS, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBS	LOCAL LEVEL - TOTAL	TOTAL - ALL PFBS	PRIORITY PFBS
The identification and assessment of risks in your organisation includes monitoring and analysis (identification, assessment and consequences) of:														
changes in the external regulatory environment (changes in laws, regulations, standards, etc.);	97.87	100.00	96.05	84.66	100.00	94.85	89.87	86.49	88.14	81.77	88.03	84.59	85.89	96.91
changes in the external physical environment (natural disasters, etc.);	74.47	100.00	63.16	62.76	91.67	80.41	70.48	65.01	59.89	54.68	70.23	59.96	63.14	73.20
changes in the market;	70.21	100.00	53.95	58.54	77.78	75.26	70.04	60.89	54.80	50.17	55.99	52.58	58.26	60.82
the emergence of new technologies;	74.47	100.00	61.84	54.09	66.67	69.07	69.60	57.95	47.46	51.00	55.02	51.57	55.24	60.82
significant changes in the way the organisation carries out its activities (change in functional model/business model, introduction of new technologies, etc.);	63.83	100.00	61.84	54.09	66.67	69.07	69.60	56.95	47.46	51.00	55.02	51.57	55.24	60.82
change in the management of the organisation;	74.47	100.00	80.26	74.31	94.44	79.38	85.02	76.37	79.10	66.39	71.84	70.20	74.36	92.87
change in the number and structure of staff;	87.23	100.00	80.26	74.31	94.44	79.38	85.02	76.37	79.10	66.39	71.84	70.02	74.36	92.78
changes in the status of the organisation;	53.19	50.00	39.47	41.14	63.89	61.86	61.23	44.51	44.63	50.17	44.66	47.69	45.52	58.76
change in organisational structure and reporting lines;	78.72	100.00	60.53	43.20	77.78	60.82	63.44	47.81	60.45	45.32	46.93	48.25	47.95	78.35
none of the above.	2.13	0.00	2.63	10.24	0.00	5.15	5.29	8.96	7.34	11.71	5.18	9.13	9.02	1.03
Tasks such as forecasting and identifying relevant changes in the external environment have been delegated.	42.55	100.00	34.21	34.63	66.67	49.48	38.33	36.36	37.85	24.75	32.69	29.15	34.07	55.67
The responsible persons/organisation are informed regularly and as needed/circumstances about internal and external changes that may significantly influence the achievement of the objectives and the functioning of the organisation.	91.49	100.00	89.47	77.51	83.33	89.69	83.70	79.42	83.05	74.08	81.88	77.77	78.89	89.69
None of the above.	8.51	0.00	7.89	20.22	13.89	9.28	14.54	18.44	14.69	24.58	16.50	20.66	19.15	9.28
In accordance with the answers to Principle 9 (Questions 13.1 and 13.2) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately identifies and assesses external and internal changes:	4.04	4.50	3.86	3.73	4.28	3.97	3.82	3.77	3.68	3.63	3.66	3.65	3.73	4.10

3. CONTROL ACTIVITIES

Principle 10 The public sector organisation selects and develops control activities (policies, procedures, measures, activities, mechanisms, rules) that help reduce the risk to the achievement of objectives to an acceptable level														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMs	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
The following key business processes have been identified and described in the organisation:														
operational processes (business processes directly aimed at fulfilling the organisation's purpose of existence / delivery of goods and provision of services to citizens / satisfaction of citizens' needs);	95.74	100.00	86.84	73.66	94.44	91.75	89.43	77.19	88.70	85.45	92.23	87.92	80.59	95.88
support processes (finance, HR, IT support, etc.);	89.36	100.00	88.16	76.31	94.44	89.69	90.31	79.20	87.57	71.40	81.88	77.03	78.51	93.81
management processes (planning, control, etc.);	85.11	100.00	85.53	75.56	94.44	96.60	88.11	78.09	78.53	72.91	80.58	76.01	77.43	89.69
None of the above.	0.00	0.00	7.89	13.60	2.78	3.09	3.52	11.62	5.08	9.36	5.83	7.66	10.36	2.06
Parts of the business processes requiring controls and activities have been identified.	87.23	100.00	63.16	58.59	83.33	78.35	72.69	61.96	77.40	57.53	71.52	64.76	62.85	86.60
Appropriate personnel (person profile) and selection, development and implementation of control activities have been established.	68.09	75.00	57.89	52.95	75.00	74.23	65.64	55.92	66.10	48.33	59.22	54.34	55.42	71.13
The selection and development of control activities is carried out for all risks for which management has decided to treat them as such.	63.83	100.00	47.37	40.22	61.11	61.86	45.81	42.80	48.02	38.80	44.98	42.07	42.56	55.67
An assessment of the effectiveness and efficiency (efficacy/benefits and costs) of the different types of control measures is carried out.	46.81	75.00	40.79	30.89	50.00	47.42	44.49	33.92	38.98	28.93	38.19	33.21	33.69	48.45
The control activities selected and developed include a mix of controls, such as preventive and detective, i.e. manual and automatic.	59.57	100.00	40.79	33.28	72.22	50.52	44.49	36.58	47.46	31.27	46.60	38.28	37.12	69.07
Deadlines are set for the implementation of specific control activities.	55.32	100.00	44.74	44.34	58.33	59.79	47.58	45.84	48.59	40.30	48.22	43.91	45.23	62.89
Control activities in the organisation are documented (process plans, written procedures, etc.).	80.85	100.00	55.26	47.70	88.89	69.07	59.03	51.33	75.14	43.31	64.40	54.52	52.34	85.57
Undocumented control activities are carried out in the organisation, i.e. there are unwritten procedures that are applied.	74.47	75.00	81.58	55.34	88.89	73.20	70.93	59.39	71.75	62.21	66.34	64.94	61.15	84.54
Control activities exist at different levels in the organisation.	85.11	100.00	75.00	61.63	94.44	86.60	79.74	65.91	73.45	54.52	75.40	63.56	65.16	88.66
None of the above.	4.26	0.00	7.89	17.34	0.00	5.15	6.17	14.79	7.91	15.72	9.71	12.73	14.14	1.03
Parts of the business processes requiring controls and activities have been identified.	87.23	100.00	63.16	58.59	83.33	78.35	72.69	61.96	77.40	57.53	71.52	64.76	62.85	86.60
Suitable staff (person profile) are identified for the selection, development, and implementation of control activities.	68.09	75.00	57.89	52.95	75.00	74.23	65.64	55.92	66.10	48.33	59.22	54.35	55.42	71.13
The selection and development of control measures is carried out for all risks for which management has decided to treat them in this way.	63.83	100.00	47.37	40.22	61.11	61.86	45.81	42.80	48.02	38.80	44.98	42.07	42.56	55.67

An assessment of the efficiency and effectiveness (efficacy/benefits and costs) of the different types of control measures is carried out.	46.81	75.00	40.79	30.89	50.00	47.42	44.49	33.92	38.98	28.93	38.19	33.21	33.69	48.45
The control activities selected and developed include a mix of controls, such as preventive and detective, i.e. manual and automatic.	59.57	100.00	40.79	33.28	72.22	50.52	44.49	36.58	47.46	31.27	46.60	38.28	37.12	69.07
Deadlines for the performance of certain control activities are set.	55.32	100.00	44.74	44.34	58.33	59.79	47.58	45.84	48.59	40.30	48.22	43.91	45.23	62.89
Control activities in the organisation are documented (process maps, written procedures, etc.)	80.85	100.00	55.26	47.70	88.89	69.07	59.03	51.33	75.14	43.31	64.40	54.52	52.34	85.57
Undocumented control activities are carried out in the organisation, i.e. there are unwritten procedures that are applied.	74.47	75.00	81.58	55.34	88.89	73.20	70.93	59.39	71.75	62.21	66.34	64.94	61.15	84.54
Control activities exist at different levels in the organisation.	85.11	100.00	75.00	61.63	94.44	86.60	79.74	65.91	73.45	54.52	75.40	63.56	65.16	88.66
None of the above.	0.00	0.00	7.89	17.34	0.00	5.15	6.17	14.79	7.91	15.72	9.71	12.73	14.14	1.03
The same person does not simultaneously perform two or more of the following duties: proposing, approving, reporting, and recording business changes (separation of duties).	91.49	100.00	69.74	59.62	83.33	80.41	68.72	62.78	80.23	57.69	69.58	64.76	63.41	87.63
In the event that it is not possible to implement adequate separation of duties in the organisation, an alternative control mechanism is introduced (e.g. increased supervision, a second pair of eyes, etc.).	51.06	50.00	51.32	42.22	47.22	59.79	51.54	44.43	40.68	44.31	47.57	44.65	44.50	45.36
The transaction/report is checked/reviewed before execution by a person who did not actually process or prepare the transaction ("four-eyes" principle).	87.23	100.00	84.21	75.39	86.11	76.29	76.65	76.20	79.10	59.53	72.49	66.42	73.10	85.57
Procedures and rules are established to ensure that only authorised persons can access material, financial and other resources.	91.49	100.00	88.16	81.95	91.67	89.69	89.87	93.62	81.36	72.07	77.99	75.28	80.97	93.81
Assets are regularly reconciled with accounting data.	100.00	100.00	88.16	84.88	94.44	93.81	92.07	86.54	83.62	82.11	86.41	83.58	85.60	96.91
Plans are in place to ensure business continuity in the event of unforeseen circumstances (e.g. fire, flood, epidemic, power failure, state of war).	55.32	75.00	51.32	60.27	75.00	65.98	77.97	62.09	71.75	50.17	59.22	56.27	60.25	73.20
None of the above.	0.00	0.00	3.95	5.26	0.00	1.03	1.76	4.50	1.69	5.85	2.91	4.34	4.45	0.00
In accordance with the answers given above to Principle 10 (Questions 14.1, 14.2 and 14.3) and taking into account the characteristics and needs of your organisation, assess whether the organisation selects and develops control activities appropriately:	4.17	4.50	4.08	3.78	4.14	4.11	3.86	3.82	3.93	3.60	3.82	3.72	3.79	4.18

Principle 11 The organisation selects and develops general control activities in the technological infrastructure segment														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
The following control activities have been selected and developed:														
control activities that help ensure the completeness, accuracy and availability of information through IT data processing;	85.11	100.00	81.58	73.06	88.89	85.57	84.58	75.51	80.23	63.21	78.96	70.48	73.92	90.72
control activities designed to protect the confidentiality and integrity of information (unauthorised modification/manipulation of data, theft, corruption, etc.);	91.49	100.00	86.84	76.48	88.89	86.60	85.90	78.69	83.62	60.20	78.32	69.19	75.67	90.72
control activities aimed at ensuring the process of procurement, maintenance and development of the infrastructure of IT;	80.85	100.00	78.95	63.79	86.11	77.32	76.65	66.86	72.88	46.66	64.08	55.90	63.38	85.57
control activities that ensure access to the infrastructure of IT exclusively for authorised users in accordance with responsibilities;	89.36	100.00	92.11	74.20	94.44	92.78	90.31	77.79	85.31	59.87	77.02	68.91	74.97	92.78
procedures that ensure the continuity of operation of the IT infrastructure, i.e. protection against data loss, etc;	74.47	100.00	78.95	61.30	83.33	80.41	77.97	64.97	75.71	48.66	72.82	59.96	63.38	82.47
None of the above.	2.13	0.00	3.95	10.14	0.00	5.15	3.52	8.75	4.52	19.73	5.83	13.28	10.19	2.06
Control mechanisms are built into IT systems and applications when:														
data input;	95.74	100.00	90.79	85.09	97.22	93.81	93.39	86.88	87.57	75.25	87.38	80.72	94.92	97.81
data processing;	93.62	100.00	86.84	80.98	91.67	91.75	92.06	83.15	86.44	68.89	84.79	75.74	80.80	91.75
output of information;	87.23	100.00	85.53	74.53	88.89	89.96	89.43	77.49	78.53	62.71	77.35	69.46	74.94	87.63
None of the above.	4.26	0.00	9.21	12.95	2.78	4.12	3.08	11.15	9.04	22.91	16.88	12.97	4.12	
In accordance with the answers given above to Principle 11 (Questions 15.1 and 15.2) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately selects and develops control activities in the technological infrastructure segment:	4.30	5.00	4.14	4.03	4.50	4.34	4.19	4.08	4.12	3.59	4.02	3.80	3.99	4.42

<p align="center">Principle 12</p> <p align="center">The organisation carries out control activities in accordance with the policies that define expectations and through the procedures by which those policies are implemented</p>														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
The organisation has established policies and procedures (written and unwritten) that support the implementation of management decisions and instructions.	93.62	100.00	80.26	82.01	91.67	89.69	90.31	83.49	90.40	84.62	86.08	85.98	84.28	92.78
The organisation has established policies and procedures for business processes and standard activities of members that include control activities.	85.11	100.00	67.11	63.09	91.67	81.44	76.21	66.21	75.71	56.52	72.17	64.11	65.54	88.66
Procedures for key business processes are documented/written.	91.49	100.00	71.05	75.66	86.11	81.44	80.18	76.72	83.62	69.73	76.38	73.89	75.82	88.66
Procedures for key processes clearly define specific steps/actions and their sequence.	91.49	100.00	72.37	66.99	88.89	81.44	74.45	69.38	77.97	56.69	67.74	63.28	67.45	87.63
It is clear at which point in time, in which phase of the business process or transaction the control is carried out.	89.36	100.00	63.16	56.86	80.56	78.35	61.67	59.52	68.36	48.33	61.81	55.44	58.23	81.44
For each control activity, it is defined who is responsible and accountable for its implementation.	87.23	100.00	65.79	65.31	86.11	74.23	70.93	67.07	75.14	56.19	70.55	63.38	65.90	86.60
Competent and responsible persons carry out the control activities in a timely manner, i.e. they correct the errors/violations found during the implementation of the control activities.	76.60	100.00	63.16	66.45	86.11	79.38	76.65	68.44	79.66	60.03	74.11	67.25	68.06	84.54
It is known how exceptions, i.e. cases of approved deviations from the established rule, are to be recorded and reported.	48.94	100.00	35.53	38.62	47.22	49.48	40.09	38.77	38.42	30.94	29.45	31.73	36.53	45.36
Control activities are reviewed regularly and redesigned as necessary	57.45	100.00	48.68	39.78	55.56	61.86	55.95	43.27	45.76	40.30	45.63	42.71	43.09	58.76
None of the above.	0.00	0.00	14.47	8.29	0.00	7.22	5.29	7.85	4.52	9.53	6.15	7.75	7.82	0.00
In accordance with the answers given above to Principle 12 (Question 16.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately carries out control activities using policies and procedures:	4.36	5.00	3.96	3.81	4.14	3.98	3.85	3.84	3.92	3.61	3.76	3.70	3.80	4.24

4. INFORMATION AND COMMUNICATION

Principle 13														
The organisation acquires, creates, and uses relevant, high-quality information														
	CENTRAL LEVEL								LOCAL LEVEL					
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL	TOTAL - ALL PFBs	PRIORITY PFBs
Information that is important to the organisation's business and the functioning of the FMC has been identified	89.36	100.00	75.00	69.21	94.44	84.54	67.40	70.71	84.18	64.38	77.67	71.40	70.93	91.75
The specific information needs of organisational units and staff have been identified.	82.98	100.00	82.89	64.23	86.11	84.54	72.25	67.24	76.27	58.19	73.14	65.41	66.66	80.41
The organisation regularly identifies and assesses information needs.	70.21	100.00	68.42	55.83	69.44	70.10	59.47	57.76	60.45	57.86	53.72	57.10	57.55	72.16
Prior compliance with personal data protection regulations, etc. is taken into account when collecting and processing information.	91.49	100.00	94.74	83.69	94.44	88.66	78.85	84.13	89.83	74.75	79.94	78.69	82.14	94.85
The organisation has identified relevant and reliable internal and external data sources.	72.34	100.00	77.63	59.24	88.89	84.54	65.64	62.31	65.54	52.17	61.81	57.10	60.66	84.54
The benefits and costs of obtaining and using information in establishing and maintaining the information and communication system are assessed.	59.57	75.00	52.63	43.41	52.78	60.82	51.54	45.75	48.59	39.97	44.01	42.53	44.73	51.55
The data processing system provides high quality (adequate, timely, accurate and complete) information.	82.98	100.00	77.63	66.23	77.78	76.29	74.01	68.35	78.53	55.85	71.20	63.93	66.95	81.44
The organisation has a system in place to make information readily available to staff who need it.	89.36	100.00	85.53	81.49	91.67	81.44	84.85	82.25	85.31	69.90	80.91	75.55	80.12	91.75
Unauthorised access to information is prevented (protection of different levels of confidentiality/sensitivity of information).	93.62	100.00	93.42	84.93	97.22	91.75	90.75	86.45	86.44	69.73	82.85	76.20	83.20	91.75
The storage of information over a long period of time is guaranteed.	91.49	100.00	93.42	84.07	100.00	90.72	91.19	85.76	89.83	73.75	84.14	79.34	83.72	94.85
The system for collecting, processing, and distributing information is regularly evaluated and improved as necessary to ensure the quality of the information.	68.09	100.00	59.21	54.58	75.00	74.23	64.76	57.20	55.37	45.65	55.99	50.18	54.98	69.07
None of the above.	0.00	0.00	3.95	4.07	0.00	3.09	4.41	3.90	3.39	10.20	3.24	7.10	4.92	0.00
In accordance with the answers given above to Principle 13 (Question 17.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation acquires, creates and uses relevant, high-quality information:	4.36	4.75	4.21	4.01	4.47	4.21	3.97	4.04	4.05	3.71	3.92	3.83	3.97	4.36

Principle 14 The organisation communicates information internally, including the objectives and responsibilities/duties of the FMC area														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
There is an effective and efficient system of written, electronic and oral communication that enables staff to obtain internally the information they need to do their jobs.	97.87	100.00	88.16	93.71	100.00	90.72	92.07	93.44	89.27	84.62	88.03	86.35	91.19	97.94
New staff and staff in new posts are introduced to their roles and responsibilities (training, instructions, policies, procedures, mentoring... are provided).	93.62	100.00	88.16	94.09	100.00	94.85	92.07	93.83	94.35	80.60	88.67	85.15	91.07	93.81
Employees are familiar with the goals of the organisation.	97.87	100.00	96.05	93.77	94.44	94.85	88.55	93.48	89.83	90.30	92.56	90.87	92.65	92.78
Regular reports are prepared for management (achievement of objectives, revenues, execution of financial and other plans, available funds, commitments, claims, reasons preventing the achievement of what was planned, etc.).	95.74	100.00	94.74	89.97	97.22	94.85	91.63	90.74	92.09	83.78	88.03	86.35	89.93	97.94
Urgent and critical information is passed on quickly.	97.87	100.00	93.42	90.35	97.22	95.88	93.39	91.25	90.96	82.27	87.70	85.24	89.34	96.91
There are specific communication channels for complaints, objections, reports of suspected irregularities, etc., which ensure anonymity and confidentiality (internal whistleblowing, etc.).	87.23	100.00	71.05	75.12	91.67	76.29	81.50	76.20	66.67	55.18	74.43	62.55	71.87	85.57
There is centralised collection of information on non-standard behaviour (including suspected irregularities, complaints, etc.).	55.32	100.00	43.42	45.26	47.22	42.27	46.70	45.54	28.81	28.26	36.25	30.63	40.81	46.39
There is an analysis/assessment of information on non-standard behaviour by persons who are independent in relation to the persons whose behaviour is the subject of the report.	55.32	100.00	43.42	49.16	52.78	45.36	54.63	49.61	33.90	32.11	38.19	34.13	44.70	48.45
The adequacy of the existing communication system (procedures, methods, etc.) is assessed in advance and, where appropriate, the necessary improvements are made.	78.72	100.00	59.21	51.71	72.22	72.16	57.71	54.33	51.98	43.14	44.34	44.93	51.35	71.13
None of the above.	0.00	0.00	2.63	1.79	0.00	1.03	2.64	1.80	1.69	4.01	2.27	3.14	2.22	0.00
In accordance with the answers given above to Principle 14 (Question 18.1) and taking into account the characteristics and needs of your organisation, assess whether adequate internal communication is in place in the organisation:	4.36	4.75	4.28	4.15	4.31	4.12	4.02	4.15	3.88	3.85	3.86	3.86	4.05	4.22

Principle 15														
The organisation communicates with external parties/stakeholders on issues relevant to the functioning of the FMC														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL - TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
An effective and efficient external communication system for timely and relevant information has been established, ensuring the necessary proactive transparency towards government authorities, the civil sector, beneficiaries of services, citizens, and other external stakeholders (important documents are published on the website, etc.).	95.74	100.00	85.53	84.72	100.00	86.60	89.87	85.82	90.40	85.12	88.03	86.81	86.12	97.94
There is a procedure/rule for approving official external communications (reports, notices, announcements, etc.) before information is made public.	82.98	100.00	72.37	69.54	91.67	79.38	74.01	71.14	69.49	64.55	68.93	66.61	69.70	84.54
There are open communication channels through which beneficiaries of services, citizens, business partners and other external stakeholders can directly contact and receive information, raise complaints and objections, etc. (customer service/support).	87.23	100.00	80.26	74.91	94.44	76.29	81.94	76.42	83.62	71.57	84.47	77.21	76.67	93.81
There are special communication channels for reporting suspected irregularities, etc., which guarantee anonymity and confidentiality (whistleblowing, etc.).	82.90	100.00	61.84	61.30	88.89	68.04	66.52	63.04	53.11	42.46	63.11	50.18	58.96	76.29
Management receives and considers information from external sources that is relevant to FMC and the achievement of the organisation's objectives.	78.72	10.00	76.35	63.31	80.56	75.26	69.16	65.44	69.49	52.01	66.67	59.04	63.41	80.41
The Executive Board/Supervisory Board receives information on the results of the FMC assessment carried out by external organisations/persons, information on amendments to laws/regulations, etc.	/	66.67	100.00	41.67	60.00	62.12	53.36	45.13	/	38.45	52.74	43.46	44.50	/
None of the above.	0.00	0.00	11.84	6.12	0.00	4.12	3.08	5.70	3.95	8.19	4.85	6.55	5.97	0.00
In accordance with the answers given above to Principle 15 (Question 19.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation communicates adequately with external parties/stakeholders:	4.13	4.75	3.87	3.78	4.36	3.92	3.86	3.81	3.77	3.57	3.79	3.66	3.77	4.15

5. MONITORING (OVERSIGHT) AND EVALUATION

Principle 16														
The organisation selects, develops, and conducts ongoing and/or specific assessments to determine whether competent internal controls (FMC elements) are in place and operating														
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL - ALL PFBs	PRIORITY PFBs
	MINISTRIES with constituent admin. bodies	OMSIs	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
Monitoring is carried out to see whether staff adhere to procedures and carry out their duties, i.e. whether control activities are actually carried out in practise.	95.74	100.00	81.58	83.85	94.44	84.54	81.94	84.05	83.05	69.73	76.70	73.89	80.83	94.85
Managers and other staff monitor whether control activities are working as intended.	87.23	100.00	72.37	73.39	91.67	79.38	76.65	74.53	77.97	60.70	71.52	66.61	72.01	90.72
Managers monitor the achievement of the objectives of the staff and the parts of the organisation they manage.	100.00	100.00	88.16	85.04	100.00	91.75	89.43	86.41	92.66	73.24	89.32	81.00	84.69	97.94
Managers monitor compliance with laws and regulations.	100.00	100.00	90.97	94.80	100.00	97.94	96.92	95.20	98.31	92.14	96.44	94.37	94.94	100.00
Management receives regular/timely information from staff on the fulfilment (or non-fulfilment) of work tasks, risks, irregularities, etc.	97.87	100.00	86.84	84.01	97.22	90.72	86.78	85.16	86.44	78.60	86.41	82.10	84.19	97.94
The reasons for possible non-achievement of targets are analysed.	87.23	100.00	81.58	77.34	88.89	89.69	79.74	78.64	74.58	62.71	75.73	68.36	75.38	86.60
During the reporting period, a self-assessment of the FMC was conducted (independent of the annual reporting process).	21.28	25.00	22.37	25.47	25.00	25.77	14.10	24.19	27.12	22.74	19.42	22.51	23.65	25.77
It is assessed whether the exceptions identified, i.e. deviations from established procedures and rules, are justified.	48.94	75.00	44.74	35.56	44.44	56.70	37.89	37.44	34.46	31.44	32.69	32.29	35.80	37.11
Should the exceptions accumulate, the management also takes action here (e.g. designation of procedures, drawing attention).	42.55	75.00	43.42	36.15	58.33	57.73	50.22	39.19	40.11	33.44	37.22	35.61	38.06	45.36
During the reporting period, an assessment of the security of information and/or the infrastructure of IT was carried out.	55.32	75.00	53.95	36.69	61.11	57.73	49.34	40.18	46.33	25.42	36.25	31.92	37.56	58.76
The implementation of the activities foreseen in the FMC action plan is monitored and the reasons for possible deviations from the action plan are analysed.	51.06	50.00	44.74	34.69	75.00	49.48	26.43	35.81	41.24	35.62	41.75	38.28	36.59	59.79
An internal audit function has been established.	46.81	100.00	30.26	10.73	80.56	39.18	29.52	16.34	50.28	15.22	33.66	26.20	19.47	79.38
An internal audit was conducted in the organisation during the reporting period.	42.55	100.00	25.00	8.67	69.44	35.05	20.70	13.25	32.77	10.37	29.45	19.46	15.22	62.89
An external audit was conducted during the reporting period (SAI and/or an external audit by an independent audit firm).	53.19	100.00	17.11	6.94	94.44	56.70	18.06	12.86	84.14	19.40	77.35	46.49	23.54	83.51
None of the above.	0.00	0.00	9.21	3.96	0.00	2.06	2.20	3.73	1.13	5.02	2.27	3.60	3.69	0.00
In accordance with the answers given above to Principle 16 (Question 20.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately monitors and assesses the functioning of the FMC:	3.89	4.00	3.62	3.47	4.22	3.67	3.41	3.50	3.75	3.39	3.60	3.51	3.51	3.98

Principle 17														
The organisation assesses the FMC's vulnerabilities and reports in a timely manner to those charged with taking corrective action, including senior management and the supervisory/management board														

	CENTRAL LEVEL								LOCAL LEVEL					
	MINISTRIES with constituent admin. bodies	OMSI's	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBS, (excluding PEs)	Users of RHIF funds	CENTRAL LEVEL TOTAL	DBBs	IBBs	OTHER PFBS	LOCAL LEVEL - TOTAL	TOTAL - ALL PFBS	PRIORITY PFBS
The organisation collects and analyses all information relevant to the FMC from all available sources (internal and external).	83.67	100.00	70.51	72.88	86.05	80.91	62.87	72.44	68.85	70.77	71.29	70.60	80.95	71.51
Information on identified deficiencies/weaknesses of the FMC is provided to management in a timely manner.	79.59	100.00	53.85	63.47	67.44	67.27	52.32	61.71	53.55	58.95	54.89	56.93	67.62	59.22
Information on identified deficiencies/weaknesses of the FMC is made available to the supervisory/management board.	/	100.00	50.00	33.98	59.26	53.42	37.55	39.29	/	36.92	40.92	38.36	/	38.75
The recommendations of the internal audit are taken into account.	67.35	100.00	29.49	20.30	65.12	45.45	26.16	29.16	50.82	30.99	36.59	35.79	71.43	32.56
The recommendations of the external audit are taken into account.	77.55	100.00	39.74	29.15	95.35	75.45	48.52	44.21	92.90	49.52	85.17	66.61	94.29	55.71
Information on identified deficiencies/weaknesses of the FMC is provided to those responsible and accountable for remediating the deficiencies/weaknesses of the FMC.	65.31	100.00	48.72	44.46	67.44	60.91	44.73	48.64	54.64	41.53	50.47	46.18	64.76	47.35
Identified deficiencies in the FMC (errors, omissions, illogicalities, limitations, etc.) are analysed and the causes identified.	61.22	100.00	52.56	39.67	62.79	61.82	44.73	46.19	45.90	29.39	47.63	37.21	59.05	41.55
Inappropriate procedures/control activities are identified and changes are proposed (change of procedures, cancellation of ineffective and inefficient control activities, introduction of new control activities).	73.47	100.00	51.28	44.65	69.77	70.00	50.21	51.55	52.46	26.52	47.00	36.50	67.62	43.79
The employees can give their proposals for the improvement of the FMC.	91.84	100.00	75.64	76.20	79.07	74.55	63.29	74.04	78.14	69.17	75.71	72.47	85.71	73.20
The organisation's response (appropriate actions) to address the deficiencies/weaknesses of the FMC is determined in a timely manner.	63.27	100.00	38.46	46.86	58.14	59.09	37.97	46.94	45.90	38.82	40.38	40.41	60.95	43.56
Accepted recommendations of the internal audit (if any) are implemented promptly.	63.27	100.00	25.64	19.00	65.12	41.82	27.00	27.85	46.99	27.16	33.12	32.06	66.67	30.00
Accepted recommendations of the external audit (if any) are implemented promptly.	71.43	100.00	41.03	25.46	93.02	68.18	45.99	40.73	87.43	41.85	77.29	59.24	88.57	50.23
Actions to eliminate observed deficiencies/weaknesses of the FMC (not related to the implementation of internal and/or external audit recommendations) are carried out in a timely manner.	77.55	100.00	43.59	42.80	65.12	63.64	43.04	47.79	57.92	36.74	52.37	44.58	67.62	46.12
The implementation of actions to eliminate deficiencies/weaknesses is monitored.	77.55	100.00	52.56	50.92	72.09	69.09	55.27	56.16	61.75	43.77	62.46	51.95	73.33	53.97
In the event that adequate actions to eliminate deficiencies/weaknesses are not implemented in a timely manner, the top management is informed about this.	65.31	100.00	39.74	39.85	69.77	57.27	48.10	46.10	51.91	37.22	52.37	43.87	66.67	44.93
None of the above.	2.04	0.00	16.67	11.07	2.33	5.45	13.50	10.63	4.37	10.86	5.05	8.17	1.90	9.36
In accordance with the answers given above to Principle 17 (Question 21.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately assesses and reports on the FMC's weaknesses:	3.90	4.50	3.53	3.37	3.84	3.68	3.18	3.42	3.62	3.26	3.49	3.38	3.87	3.40

Table 3. Overview of the results of irregularity management (in %)

IRREGULARITIES MANAGEMENT														
	CENTRAL LEVEL								LOCAL LEVEL				PRIORITY	
	MINISTRIES with administrative bodies in the	OMSIs	OTHER DBBs (without ministries and their constituent	IBBs	PEs	Other PFBs (excluding PEs)	Beneficiaries of RHIF funds	CENTRAL LEVEL TOTAL	LSGs - DBBs	IBBs	OTHER PFBs	LOCAL LEVEL - TOTAL		
Have your suspicions of irregularities been confirmed?	8.16	0.00	6.41	7.75	25.58	12.73	15.19	10.54	10.93	3.67	9.78	6.57	15.24	8.49
Are the confirmed irregularities rectified?	75.00	0.00	100.00	100.00	100.00	92.86	100.00	98.21	95.00	95.65	93.55	94.60	15.24	96.77
Confirmed irregularities have been rectified:														
within the organisation	50.00	0.00	100.00	61.90	45.45	64.29	63.89	62.50	70.00	73.92	54.84	63.51	56.25	62.90
outside the organisation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.00	0.00	0.00	1.35	0.00	0.54
within and outside the organisation	50.00	0.00	0.00	38.10	54.55	28.57	36.11	36.61	30.00	21.74	38.71	29.73	43.75	33.87

Table 4. Overview of the results of irregularity management (in %)– educational institutions

IRREGULARITIES MANAGEMENT	
	CENTRAL LEVEL
	EDUCATIONAL INSTITUTIONS (%)
21.1. Have your suspicions of irregularities been confirmed?	5.16
21.2. Are the confirmed irregularities rectified? (<i>Only institutions where the suspicion of irregularities has been confirmed come into question</i>)	98.79
21.3. Only the institutions in which the confirmed irregularities have been rectified are responsible. The confirmed irregularities have been rectified:	
within the institution	60.98
outside the institutions	1.22
within and outside the organisation	35.37

Annex 3. Overview of PFBs that Established IA

CENTRAL GOVERNMENT LEVEL

Table 1. Number of established IA, systematised and filled internal auditor positions in PFB institutions at central level in 2023

PFBs		Reports submitted	Normative IA	Functionally established IA	Classified working posts	Post filled out
Central Level	Ministries with administrative bodies in the composition	29	29 ²⁶	20	131	62
	OMSI	4	4	4	43	28
	Other PFBs	91	29	26	43	23
	IBBs ²⁷	274	25	25	17	15
	PEs at the central level	39	30	30	131	88
	Other PFBs	81	45	45	81	67
	Beneficiaries of RHIF	197	96	81	119	78
	Total	715	258	231	565	361

IA is normatively established in 25 ministries and 4 administrations within ministries, and functionally in 16 ministries and in 4 administrations within the ministries, with 131 internal auditor positions systematised and 62 filled. IA is established in all OMSIs, both at normative and functional level; 32 internal auditor posts systematised, and 28 internal auditors perform IA function. In all other central level PFBs, except the ministries with the above mentioned 4 administrations in composition and OMSIs, the IA function has been established normatively in 225 users and functionally in 207 users; 391 positions have been systematised and audits are carried out by 271 internal auditors.

Based on the data on PFBs at central level, we can see that there has been a 22% increase in the number of normatively established IA functions, a 70% increase in the number of functionally established IA functions, and a 11% increase in the number of systematised IA positions, but also a from 2% in the number of filled positions for IA in 2023 compared to

²⁶ This number includes normatively established IAs in 25 ministries (according to the annual reports submitted) and separate IAs in four administrations (Treasury Administration, Tax Administration and Customs Administration in the Finance Ministry and Agrarian Payments Agency in the Ministry of Agriculture, Forestry and Water Management)

²⁷ These are indirect budget beneficiaries (IBBs) at the central level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is performed by the direct budget beneficiary, pursuant to Art. 5(3) of the Rulebook on IA and with no educational institutions.

2022. The main contributor to this growth was the increase in the category of RHIF beneficiaries, i.e. public sector healthcare institutions and the categories of other PFBs, due to the engagement of individual certified internal auditors under the internal audit contract.

MINISTRIES

All ministries submitted their IA reports. A total of 91 internal audit positions were systematised in the ministries and the IA employs 42 internal auditors. Compared to the previous year, the number of systematised posts has increased by 18%, but the number of internal auditors employed has fallen by 3%. Only one employee is systematised in the Ministry of Rural Welfare and the Ministry of Science, Technological Development and Innovation.

Table 2. IA function, by ministry, in 2023

Name of the ministry	Normative IA	Functional IA	Number of internal auditors
Ministry of Finance	Yes	Yes	3
Ministry of Economy	Yes	No	0
Ministry of Agriculture, Forestry and Water Management	Yes	Yes	2
Ministry of Environmental Protection	Yes	No	0
Ministry of Construction, Transportation and Infrastructure	Yes	Yes	2
Ministry of Mining and Energy	Yes	Yes	2
Ministry of Internal and Foreign Trade	Yes	Yes	1
Ministry of Justice	Yes	Yes	3
Ministry of Public Administration and Local Self-Government	Yes	Yes	2
Ministry of Human and Minority Rights and Social Dialogue	Yes	No	0
Ministry of the Interior	Yes	Yes	8
Ministry of Defence	Yes	Yes	5
Ministry of the Foreign Affairs	Yes	No	0
Ministry of European Integration	Yes	Yes	2
Ministry of Education	Yes	Yes	3

Ministry of Health	Yes	Yes	3
Ministry of Labour, Employment, Veteran and Social Affairs	Yes	Yes	1
Ministry of Family Welfare and Demography	Yes	No	0
Ministry of Sports	Yes	Yes	1
Ministry of Culture	Yes	Yes	3
Ministry of Rural Welfare	Yes (one auditor)	No	0
Ministries Science, Technological Development and Innovations	Yes (one auditor)	No	0
Ministry of Tourism and Youth	Yes	No	0
Ministry of Information and Telecommunications	Yes	Yes	1
Ministry for Public Investment	Yes	No	0

Functional IA unit has been established in 16, and only 7 employs at least three internal auditors, being the minimum prescribed by law. The reason given by the ministries for this state of affairs was the lack of suitable staff for redeployment within the organisation, low salaries in the public sector compared to the private sector for this volume of work, and natural attrition, which led to the departure of internal auditors from the public sector and made it difficult to recruit new auditors. Comparing the data with the previous year, despite the increase in the number of systematised working posts, a slight decrease in the number of internal auditors employed can be observed in the category of ministries.

LOCAL LEVEL

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

PFBs		Reports submitted	Normative IA	Functional IA	Systematised work posts	Post filled out
Local level	LSG DBBs	137	107	73	179	128
	LSG IBBs ²⁸	349	0	0	0	0

²⁸ These are indirect budget beneficiaries (IBBs) at the local level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is

PFBs		Reports submitted	Normative IA	Functional IA	Systematised work posts	Post filled out
	Other PFBs (PUCs, etc.) whose founder is the local government	219	90	71	149	107
	Total	705	197	144	328	235

Of the 137 reports received from APV, the City of Belgrade, towns and municipalities, 107 LSG DBBs have a normatively established IA function and 73 LGS DBBs have a functionally established IA. The total number of systematised IA posts is 179, and the number of filled posts is 128.

According to the data presented, in the PFBs at the local self-government level, in 2023, compared to 2022, there is an increase of 13% in the number of IA functions established normatively and 41% in the number of IA functions established functionally, an increase of 14% in the number of systematised posts and 14% in the number of internal auditor posts filled.

As shown in Table 4, APV has produced a normative and functional IA function in accordance with the IA Rulebook. As for the towns, they have all submitted their annual reports for 2023, except for the Town of Smederevo. Of the cities that have submitted an annual report, 8 cities have not established a normative IA function in accordance with the IA Rulebook, i.e. IA unit with at least three systematised workplaces, while three have not at all established IA, specifically the towns of Kikinda, Leskovac and Jagodina. In addition, 9 out of a total of 24 cities do not have a staffed IA unit with at least three internal auditors.

Table 4. IA function in key PFBs at local level in 2023

Name of public funds beneficiary	Normative IA	Functional IA	Number of auditors
AP Vojvodina	Yes	Yes	5
The City of Belgrade	Yes	Yes	18
Novi Sad	Yes	Yes	6
Niš	Yes	Yes	3
Subotica	Yes	Yes	2
Kragujevac	Yes	Yes	7

performed by the direct budget beneficiary, pursuant to Art. 5, paragraphs 3 and 4 of the IA Rulebook.

Novi Pazar	Yes	Yes	5
Kruševac	Yes (it is not in compliance with the IA Rulebook)	Yes	1
Vranje	Yes	Yes	3
Kikinda	No	No	0
Pančevo	Yes	Yes	2
Sremska Mitorvica	Yes (it is not in compliance with the IA Rulebook)	Yes	1
Loznica	Yes	Yes	1
Pirot	Yes	Yes	3
Požarevac	Yes	Yes	2
Prokuplje	Yes	Yes	2
Jagodina	No	No	0
Užice	Yes	Yes	5
Zrenjanin	Yes	Yes	3
Bor	Yes (it is not in compliance with the IA Rulebook)	Yes	2
Valjevo	Yes	Yes	2
Čačak	Yes (it is not in compliance with the IA Rulebook)	Yes	1
Leskovac	No	No	0
Vršac	Yes (it is not in compliance with the IA Rulebook)	Yes	1
Kraljevo	Yes	Yes	1
Šabac	Yes (it is not in compliance with the IA Rulebook)	Yes	1
Smederevo	The report was not submitted		
Sombor	Yes	Yes	2
Zaječar	Yes (it is not in compliance with the IA Rulebook)	Yes	1

NUMBER OF AUDITOR WITH PFBs

Table 5 shows the total number of PFBs, at the level of the entire public sector that have a functional IA and at least one filled internal auditor position. The number of PFBs with an internal audit function is constantly increasing and reaches 375 in 2023.²⁹ Expressed in percentages, 72% of PFBs have established the IA function with one internal auditor, 11% with two internal auditors, and 17% with three or more. Compared to the previous year, there is a tendency for the number of employees in the IA units to decrease and the number of internal auditors themselves to increase (one auditor performs the internal audit function), which indicates the difficult process of staff retention and recruitment, whether through retirement, transfer to other jobs or leaving the organisation.

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

PFBs		1 auditor	2 auditors	3 and more auditors
Central Level	Ministries with administrative bodies in the composition	4	6	10
	OMSIs	1	0	3
	Other PFBs	12	4	1
	IBBs	13	1	0
	PEs at the central level	16	2	9
	Other PFBs	22	4	4
	Beneficiaries of RHIF	54	4	5
	Total	122	21	32
Local level	LSG DBBs	56	7	10
	LSG IBBs	0	0	0
	Other PFBs (PUCs, etc.) whose founder is the local government	53	7	11
	Total	109	14	21
Total at the local and central level		231	35	53
Total		319		

²⁹ A total of 375 PFBs have a functional IA. The difference is due to the performance of IA tasks by the PFBs by individuals on the basis of the IA agreements.

Annex 4. Form for the Annual Report on Audits and Internal Audit Activities

(header of public funds beneficiary)

ANNUAL REPORT ON AUDITS AND INTERNAL AUDIT ACTIVITIES

For the year of 2023

1. GENERAL INFORMATION ON THE PUBLIC FUNDS BENEFICIARY:	
1.1. Full name of public fund beneficiary (PFBs) and the address of head office:	
1.2. Head of PFB (job title, first and last name):	
1.3. Unique identification number of public fund beneficiary (UNPFB) from the List of public fund beneficiaries	
1.4. Total amount of planned expenses in the reporting period (for the public fund beneficiary), in RSD:	
1.5. Total number of staff in positions envisaged in the staffing plan within the PFB ³⁰ , as at 31 December	
1.6. Total number of positions filled within the public fund beneficiary, as at 31 December	

³⁰ From the general enactment of the public fund beneficiary.

2. GENERAL DATA ON THE ESTABLISHMENT OF INTERNAL	
<p>2.1. In the RS public sector, there are several modalities for the establishment of the internal audit function. The following companies are expressly required to set up their own internal audit function:</p> <p>1) beneficiaries of public funds that have more than 500 employees,</p> <p>2) National Assembly of the Republic of Serbia,</p> <p>3) Ministries,</p> <p>4) High Judicial Council,</p> <p>5) High Prosecutorial Council,</p> <p>6) Republic Health Insurance Fund,</p> <p>7) Pension and Disability Insurance Fund,</p> <p>8) Social Insurance Fund for Military Personnel,</p> <p>9) National Employment Agency,</p> <p>10) direct budget beneficiaries of the Republic of Serbia that have indirect budget beneficiaries under their jurisdiction (with the exception of direct budget beneficiaries that have the status of an authority in the composition of another direct budget beneficiaries),</p> <p>11) autonomous provinces,</p> <p>12) the City of Belgrade</p> <p>13) towns,</p> <p>14) municipalities with more than 500 employees in the municipal administration with municipal budget funds and other public fund beneficiaries under the jurisdiction of the municipality.</p> <p>Do you belong to this group of public fund beneficiaries?</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>
2.2. Are you direct budget beneficiaries?	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.2.1. If you answer YES, please indicate how many public fund beneficiaries are under your jurisdiction:	
2.3. Does the general internal enactment provide for one or more employees at the workplaces for the internal auditing tasks?	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.3.1. If the answer to the previous question is YES, please indicate in the table the number of planned (systematised) employees at the workplaces for internal audit tasks:	
Job title	Planned (systematised) number of employees
2.4. Is the internal audit unit planned under the general internal enactment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.5. Does your organisation employ one or more employees (full-time or fixed term agreements) in internal audit positions?	Yes <input type="checkbox"/> No <input type="checkbox"/>

2.5.1. If the answer to the previous question is YES, please indicate the the number of employees at the workplaces for internal audit tasks in your organiser:	
2.6. Indicate the number of trainees that your organisation has registered for training to become an accredited internal auditor in the public sector (including trainees whose training process started before the reporting period and is still ongoing):	- theoretical - practical

3. MODALITY OF SETTING UP THE INTERNAL AUDIT FUNCTION

3.1. The next question (3.2) relates to the way internal audit is carried out in your organisation and not all questions are relevant to everyone. To answer only relevant questions, your answer to this question will determine which sections of the report you will have access to (which questions you can answer) and which you cannot.

☐ I understand that the answer to the following question will depend on which sections of the report/questionnaire we will have access to for the purpose of answering.

3.2. The internal audit is carried out in your organisation in one of the following ways:

- 1) ☐ An internal auditor (either permanently or temporarily) is employed by the organisation (either as an independent auditor or within the internal audit unit).
- 2) ☐ We have entered into an agreement with another public fund beneficiary to perform internal audit functions (the internal audit tasks are performed by the internal audit unit of another public fund beneficiary under the agreement).
- 3) ☐ We have concluded an agreement on the establishment of a joint internal audit unit with another public fund beneficiary/beneficiaries.
- 4) ☐ We have concluded a contract for the performance of internal audit tasks with an certified internal auditor in the public sector/legal entity providing audit services (where an certified internal auditor in the public sector is engaged).
- 5) ☐ The internal audit tasks are carried out by the internal audit unit of the competent direct budget beneficiary in accordance with its own work plan.
- 6) ☐ None of the above.

3.2.1. If the answer is “none of the above”, please indicate the reason why no internal audit has been introduced in your organisation?

4. GENERAL INFORMATION ON THE INTERNAL AUDIT UNIT AND INTERNAL AUDITOR

4.1. Name of the internal audit unit /first and last name of internal auditor³¹:

4.2. Head of internal audit unit (job title, first and last name):

4.3. Telephone number of the internal audit unit/internal auditor:

4.4. Email address of the internal audit unit/internal auditor:

³¹ Only if the internal audit unit is not in place.

5. INTERNAL AUDIT STAFF CAPACITIES

5.1. Has the head of the internal audit unit been appointed? Yes ☐ No ☐

5.1.1. If the answer is YES, does the head of internal audit meet the requirements to perform tasks of the head of internal audit unit prescribed under Article 21 and 22 of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector ("Official Gazette of the RS", no. 99/2011, 106/2013 and 84/2023)? Yes ☐ No ☐

5.2. Staffing level (fill rate) and pay grades for the internal audit unit/internal auditor positions (enter in numerical format):

Job title/post	Number of internal auditor positions systematised (i.e., envisaged)	Posts filled	Job coefficient	Taxable wage base (in December)

5.3. Within the table which is in the SPECIAL SECTION, please submit a list with the names, surnames, job titles and number of certificates awarded to certified internal auditors in the public sector³², for all internal audit employees in the reporting period.

³² The filing number of the certificate awarded to a certified public sector internal auditor is to be entered only for staff engaged in internal audit-related work who have acquired this title in line with the Rulebook on the requirements and procedure for taking the exam for acquiring the title of certified internal auditor in the public sector ("Official Gazette of the RS", no 9/2014 and 84/2023).

6. INTERNAL AUDIT ACTIVITIES - IMPLEMENTATION IN THE PARENT ORGANISATION

6.1. Did your internal audit unit/your internal auditor provided assurance services (conducted internal audits) in your organisation during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
6.1.1. If the answer is YES, indicate the number of provided assurance services (internal audits performed):	
6.2. Were there any recommendations based on assurance services provided (audits performed) in your organisation during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
6.2.1. If the answer is YES, indicate the number of recommendations made:	
6.3. Did your internal audit unit provide assurance services to your organisation during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
6.3.1. If the answer is YES, indicate the number of consulting services provided:	
6.4. In the table in the SPECIAL SECTION, provide information on the assurance services provided (audits performed) in your organisation during the reporting period.	
6.5. Provide information in the table in the SPECIAL SECTION on the consulting services provided in your organisation during the reporting period.	

7. ACTIVITIES OF INTERNAL AUDIT - INTERNAL AUDIT IS CARRIED OUT WITH OTHER PUBLIC FUND BENEFICIARIES WITHIN ITS JURISDICTION

7.1. If your organisation is a direct budget beneficiary that has users of public fund beneficiaries under its jurisdiction, does your internal audit unit also conduct internal audits within the other public fund beneficiaries within its jurisdiction (in accordance with the provisions of the regulations governing the establishment and organisation of internal audit in the public sector of the Republic of Serbia)?	Yes <input type="checkbox"/> No <input type="checkbox"/>			
7.1.1. If the answer is YES, please enter in the table the UNPFB and the names of the public fund beneficiaries for which your internal audit unit conducts audit engagements based on its jurisdictions (assurance and/or consulting services) during the reporting period, as well as the number of assurance services, recommendation and consulting services:				
UNPFB	Name of public funds beneficiary	Number of assurance services	Number of recommendations	Number of consulting services

7.1.1. If the answer is NO, please state the reason:

7.2. In the table in the SPECIAL SECTION, please list the data on the assurance services (audit) (if any) provided by your internal audit units to the public fund beneficiaries in your jurisdiction during the reporting period.

7.3. In the table in the SPECIFIC PART, please list the data on the consulting services (if any) provided by your internal audit units to the public fund beneficiaries in your jurisdiction during the reporting period.

8. INTERNAL AUDIT ACTIVITIES - INTERNAL AUDIT PROCEDURES PERFORMED WITH ANOTHER PUBLIC FUND BENEFICIARIES UNDER THE AGREEMENT (to be completed by public fund beneficiaries who are service providers)

8.1. Have you concluded an agreement on the basis of which your internal audit unit carries out internal audit work for another public fund beneficiary? Yes ☐ No ☐

8.1.1. If the answer is YES, please indicate in the table UNPFB and the names of the public fund beneficiaries with whom you have concluded such an agreement, as well as data on audit engagements (if any) in the reporting period:

UNPFB	Name of public funds beneficiary	Number of assurance services	Number of recommendations	Number of consulting services

9. INTERNAL AUDIT ACTIVITIES ARE PERFORMED BY INTERNAL AUDIT UNIT OF THE OTHER PUBLIC FUND BENEFICIARY UNDER THE AGREEMENT (to be completed by public fund beneficiaries who are service recipients)

9.1. If you have concluded an agreement with a public fund beneficiary on the performance of internal audit work by the internal audit unit of this public fund beneficiary, please enter in the table the UNPFB and the name of this public fund beneficiary as well as the number and date of the agreement:

UNPFB	Name of public funds beneficiary	Number of contracts	Date of contract

9.2. Have assurance services (audits) been rendered in your organisation under this agreement during the reporting period? Yes ☐ No ☐

9.2.1. If the answer is YES, please indicate the number of assurance services rendered:

9.3. Were there any recommendations based on assurance services provided (audits performed) in your organisation during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
9.3.1. If the answer is YES, indicate the number of recommendations made:	
9.4. Have consulting services been rendered in your organisation under this agreement during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
9.4.1. If the answer is YES, indicate the number of consulting services provided:	
9.5. In the table in the SPECIAL SECTION, please list the data on the assurance services (audits) performed in your organisation during the reporting period by the internal audit unit of another public fund beneficiary under the agreement (if any).	
9.6. In the table in the SPECIFIC PART, please list data on consulting services provided in your organisation during the reporting period by the internal audit function of another public fund beneficiary under the agreement (if any).	

10. INTERNAL AUDIT ACTIVITIES ARE CARRIED OUT BY THE JOINT INTERNAL AUDIT UNIT

10.1. If you have concluded an agreement with a public fund beneficiary on the establishment of a joint internal audit unit, please indicate in the table the UNPFB and the names of all public fund beneficiaries with whom you have concluded the agreement, as well as the number and date of the agreement:

UNPFB	Name of public funds beneficiary	Number of contracts	Date of contract

10.2. Have assurance services (audits) been rendered in your organisation under this agreement during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
10.2.1. If the answer is YES, please indicate the number of provided assurance services (audits performed):	
10.3. Were there any recommendations based on assurance services provided (audits performed) in your organisation during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
10.3.1. If the answer is YES, indicate the number of recommendations made:	
10.4. Have consulting services been rendered in your organisation under this agreement during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
10.4.1. If the answer is YES, indicate the number of consulting services provided:	

10.5. In the table in the SPECIAL SECTION, please list the data on the assurance services (audits) performed in your organisation during the reporting period by the joint internal audit unit of another fund beneficiary under the agreement (if any).

10.6. In the table in the SPECIFIC PART, please list data on consulting services provided in your organisation during the reporting period by the joint internal audit unit of another fund beneficiary under the agreement (if any).

11. INTERNAL AUDIT IS CARRIED OUT ON THE BASIS OF THE AGREEMENT CONCLUDED

11.1. If you have concluded an internal audit agreement with an certified internal auditor in the public sector/legal entity providing auditing services, please state the first and last name of the internal auditor, the certificate number of the certified internal auditor responsible for the audit and the name of the legal entity providing internal audit services:

Number	First name	Last name	Number of certificates of certified public sector internal auditors	Name of legal entity providing internal audit services

11.2. Executed contract

- ☐ for individual auditing engagements (assurance services and/or consulting services)
- ☐ for a determined period of time (for instance one year)
- ☐ both.

11.3. Have assurance services (internal audits) been rendered in your organisation under this agreement during the reporting based on the agreement: Yes ☐ No ☐

11.3.1. If the answer is YES, indicate the number of provided assurance services (internal audits performed):

11.4. Were there any recommendations based on assurance services provided (internal audits performed) in your organisation during the reporting period based on the agreement? Yes ☐ No ☐

11.4.1. If the answer is YES, indicate the number of recommendations made:

11.5. Have consulting services been rendered in your organisation by IA under the stated agreement during the reporting period: Yes ☐ No ☐

11.5.1. If the answer is YES, indicate the number of consulting services provided:	
11.6. In the table in the SPECIAL SECTION, please list the data on the assurance services (internal audits) performed in your organisation during the reporting period under the agreement (if any).	
11.7. In the table in the SPECIFIC PART, please list data on consulting services provided in your organisation during the reporting period under the agreement (if any).	

12. INTERNAL AUDIT IS CARRIED OUT BY THE INTERNAL AUDIT UNIT OF THE COMPETENT DIRECT BUDGET BENEFICIARY	
12.1. If your internal audit activities are performed by the internal audit unit of the competent direct budget beneficiary, were internal audits performed in your organisation on this basis during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
12.1.1. If the answer is YES, please indicate the name of the institution from which the internal auditors who carried out the IA at your organisation during the reporting period (there may be several institutions, indicate them all):	
12.2. If internal audits were conducted at your organisation by the competent direct budget beneficiary, how many recommendations were made as part of these audits?	
12.3. The internal audit unit of the competent direct budget beneficiary has the possibility to render a consulting service at your request. Were such consulting services provided during the reporting period?	Yes <input type="checkbox"/> No <input type="checkbox"/>
12.3.1. If the answer is YES, please indicate the name of the direct budget beneficiary whose internal auditors rendered consulting services at your request during the reporting period	

13. INTERNAL AUDIT STATUS	
13.1. Is the internal audit unit/the internal auditor organisationally and functionally independent within the public fund beneficiary?	Yes <input type="checkbox"/> No <input type="checkbox"/>
13.1.1. If the answer is NO, please state the reason:	
13.2. Does the internal audit unit/internal auditor directly and exclusively report to the head of the public funds beneficiary?	Yes <input type="checkbox"/> No <input type="checkbox"/>
13.2.1. If NO, please state to whom it reports and the reason why:	

13.3. Is performing internal audits the sole task of internal audit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
13.3.1. If NO, please specify which other tasks are performed by the IA and state the reason:	
13.4. Internal auditors have full, free, and unlimited right of access to:	
a) all documentation and records	Yes <input type="checkbox"/> No <input type="checkbox"/>
b) data and information on all data carriers	Yes <input type="checkbox"/> No <input type="checkbox"/>
c) the manager of the public funds beneficiary	Yes <input type="checkbox"/> No <input type="checkbox"/>
d) staff (managers and employees)	Yes <input type="checkbox"/> No <input type="checkbox"/>
e) material assets	Yes <input type="checkbox"/> No <input type="checkbox"/>
13.5. If the answer is NO, please state the reason:	

14. COMPLIANCE WITH INTERNAL AUDIT STANDARDS AND METHODOLOGIES

Compliance with the Manual for Internal Auditors

14.1. Do internal auditors use the Manual for Internal Audit developed by the Central Harmonization Unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.2. Do internal auditors use other manuals, in addition to the Manual for Internal Audit developed by the Central Harmonization Unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.2.1. If the answer is YES, please state the title of the manual and reason to use it:	
14.3. In performing individual audits, internal auditors fully adhere to the phases of the auditing procedure envisaged in the Manual for Internal Audit developed by the Central Harmonisation Unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.3.1. If the answer is NO, please state the reason:	

Internal Audit Charter

14.4. Did the Head of PFB and the head of IA unit/internal auditor sign the internal auditors' charter?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.4.1. If the answer is Yes, please attach the scanned Charter with all Annexes.	
14.4.1. If the answer is NO, please state the reason:	
14.5. Is the Charter consistent with the amendments to the rulebook governing the work of internal audit (extension of the scope of the audit)?	Yes <input type="checkbox"/> No <input type="checkbox"/>

Compliance with internal audit standards and the Internal Audit Code of Ethics

14.6. Do internal auditors adhere to international internal audit standards in performing internal audits?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.6.1. If the answer is NO, please state the reason:	

14.7. Did all internal auditors sign the Internal Audit Code of Ethics?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.8. Do internal auditors comply with the principles and rules of the Internal Audit Code of Ethics in their work?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.8.1. If NO, please state the reason and cases of non-compliance:	
Use of methodological tools of the Central Harmonization Unit	
14.9. Please mark which of the above-mentioned methodological tools, which are available on the website of the Ministry of Finance - Central Office for Harmonisation, you use when conducting the internal audit: 1) <input type="checkbox"/> Model for the internal quality review of the performance of internal audit units; 2) <input type="checkbox"/> Tools for auditing IPA funds of the European Union; 3) <input type="checkbox"/> Guidelines for auditing cross-sectoral programmes and projects – “horizontal audit” 4) <input type="checkbox"/> Tools for implementing IT system and IT system data security audits at PFBs <input type="checkbox"/> 5) None of the above.	
14.10. Did internal audit utilise additional services from external experts in any area in 2023?	Yes <input type="checkbox"/> No <input type="checkbox"/>
14.10.1. If the answer is YES, please state the areas:	

15. STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS	
15.1. Was the internal audit strategic plan developed based on risk assessment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.1.1. If the answer is NO, please state the reason:	
15.2. If the internal audit also performs internal audit work for other public fund beneficiaries, ex-officio under its competence or on the basis of the agreement, are these public fund beneficiaries also included in the risk assessment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.3. Was the internal audit strategic plan approved by the head of the public funds beneficiary?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.3.1. If the answer is NO, please state the reason:	
15.4. Is the strategic plan for internal auditing available internally for top management (individually forwarded, published in the internal newsletter) or externally for the management of public fund beneficiaries under the jurisdiction (published on the organisation's Intranet pages, forwarded information by letter, e-mail and the similar.)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.5. Is the Annual Internal Audit Plan developed based on the internal audit strategic plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.5.1. If the answer is NO, please state the reason:	

15.6. Is the annual internal audit plan approved by the public funds beneficiary manager?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.6.1. If the answer is NO, please state the reason:	
15.7. Did the last amendment to the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011, 106/2013 and 84/2023) expand the scope of auditees in your case?	Yes <input type="checkbox"/> No <input type="checkbox"/>
15.7.1. If the answer is yes, how have these amendments affected your plans? (please mark all the correct answers)	
<input type="checkbox"/> We have included an extended scope of beneficiaries in the strategic plan <input type="checkbox"/> We have included an extended scope of beneficiaries in the annual plan <input type="checkbox"/> None of the above	
15.8. Is the annual internal audit plan available to top management individually forwarded, published in the internal newsletter) or externally for the management of public fund beneficiaries under the jurisdiction (published on the organisation's Intranet pages, forwarded information by letter, e-mail and the similar.)?	Yes <input type="checkbox"/> No <input type="checkbox"/>

16. EXECUTION OF THE ANNUAL INTERNAL AUDIT PLAN³³ (public fund beneficiaries enter data relating to plans/activities for their own organisation. In exceptional cases, where they are direct budget beneficiaries whose internal audit unit performs internal audit work for other public fund beneficiaries in their jurisdiction, summary data are entered covering plans/activities for the parent organisation and plans/activities for the organisation in which they perform audit work, in the jurisdiction)	
16.1. Total number of planned assurance services (audits) according to the annual plan:	
16.2. Total number of assurance services (“on demand”) planned subsequently:	
16.3. Total number of assurance services (audits) performed for which a final audit report was drawn up:	
16.4. Reasons for failure to implement the planned number of assurance services (state the reasons):	
16.5. Total number of consulting services for which reports were drafted:	

³³ This refers to the year for which this report is submitted.

16.6. Are the audit reports and consulting service reports regularly sent to the manager of the public funds beneficiary?	Yes <input type="checkbox"/> No <input type="checkbox"/>
16.7. Does the responsible person in the audited entity complete and decide on the recommendations follow-up plan which lists the accepted recommendations and actions to be taken, persons responsible and deadlines?	Yes <input type="checkbox"/> No <input type="checkbox"/>
16.7.1. If the answer is NO, please state the reason:	
16.8. Does the internal audit unit/internal auditor keep records of the recommendations made in the audit reports along with data necessary for monitoring follow up?	Yes <input type="checkbox"/> No <input type="checkbox"/>
16.8.1. If the answer is NO, please state the reason:	
16.9. Number of follow-up assurance services performed in the reporting period:	
16.10. Number of follow-up audits on recommendations from the previous reporting period:	

17. NUMBER OF RECOMMENDATIONS GIVEN AND NUMBER OF RECOMMENDATIONS IMPLEMENTED DURING THE REPORTING PERIOD (public fund beneficiaries enter data relating to plans/activities for their own organisation. In exceptional cases, where they are direct budget beneficiaries whose internal audit unit performs internal audit work for other public fund beneficiaries in their jurisdiction, summary data are entered covering plans/activities for the parent organisation and plans/activities for the organisation in which they perform audit work, in the jurisdiction)

17.1. Number of recommendations made in audit reports ³⁴ :	
17.2. Number of rejected recommendation in audit reports:	
17.3. Number of recommendations complied with:	
17.4. Number of recommendations with an implementation deadline after 31 December 2023	
17.5. Number of recommendations which compliance deadline of 31 December 2023 has expired	
17.6. If there are not implemented recommendations which compliance date has expired, please indicate the reasons for non-implementation:	

18. IMPLEMENTATION OF RECOMMENDATIONS GIVEN DURING THE REPORTING PERIOD (public fund beneficiaries enter data relating to plans/activities for their own organisation. In exceptional cases, where they are direct budget beneficiaries whose internal audit unit performs internal audit work for other public fund beneficiaries

³⁴ Total number of recommendations issued from all assurance services rendered (audits performed) during the reporting period.

in their jurisdiction, summary data are entered covering plans/activities for the parent organisation and plans/activities for the organisation in which they perform audit work, in the jurisdiction)

18.1. Number of recommendations provided in the previous reporting period (in 2022) that were implemented in the reporting period (in 2023):

18.2. If there are unimplemented recommendations from previous reporting periods in this reporting period for which the deadline for implementation has expired,

please state the reasons for non-implementation:

19. AUDIT COMMITTEE

19.1. Has an audit committee been established as an advisory body on internal audit issues?

Yes ☐ No ☐

19.2. Is the audit committee composed of independent members, with appropriate professional qualifications?

Yes ☐ No ☐

19.3. Does the audit committee examine and advise on the preliminary opinion for the draft charter, strategic and annual internal audit plan before approving the plan?

Yes ☐ No ☐

19.4. Does the audit committee review and provide advice on the implementation of the annual internal audit plan?

Yes ☐ No ☐

19.5. Specify the duties of the audit committee:

20. CONTINUOUS PROFESSIONAL DEVELOPMENT OF CERTIFIED INTERNAL AUDITORS

20.1. Does the public funds beneficiaries' internal audit keep records on professional training of certified internal auditors in accordance with Article 10, paragraph 2 of the Rulebook on Professional Development of Internal Auditor in the Public Sector ("Official Gazette of the RS", no. 15/2019)?

Yes ☐ No ☐

21. ASSESSMENT OF THE QUALITY OF INTERNAL AUDITORS' WORK (to be completed by public fund beneficiaries who have an internal audit function)

21.1. Has the head of internal audit established a programme for assessing the quality of the performance of the internal audit unit?

Yes ☐ No ☐

21.2. Does the head of internal audit carry out internal reviews (continuous reviews and periodic self-assessments) pursuant to Art. 19(2) of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector ("Official Gazette of the RS", no. 99/2011, 106/2013 and 84/2023)?

Yes ☐ No ☐

21.2.1. If the answer is NO, please state the reason:	
21.3. Was an external performance review carried out in the public fund beneficiaries in the last five years in accordance with Art. 19(3) of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector ("Official Gazette of the RS", no. 99/2011, 106/2013 and 84/2023)?	Yes <input type="checkbox"/> No <input type="checkbox"/>

22. RECOMMENDATIONS FROM THE CONSOLIDATED ANNUAL REPORT FOR THE PREVIOUS YEAR³⁵

22.1. Are you acquainted with the content of the recommendations made to public funds beneficiaries in the Consolidated Annual Report for the 2022?	Yes <input type="checkbox"/> No <input type="checkbox"/>
22.2. Are you implementing the recommendations provided in the internal audit field in the Consolidated Annual Report for the previous year that concern your organisation?	Yes <input type="checkbox"/> No <input type="checkbox"/>
22.2.1. If the answer is NO, please state the reason:	

23. PROPOSALS FOR THE DEVELOPMENT OF INTERNAL AUDIT

23.1. Briefly state which activities you planned or implemented for the development of internal audit in your organisation:
23.2. Your proposals for the development and improvement of internal audit (general):
23.3. NOTES:

24. INTERNAL AUDIT OPINION ON THE LEVEL OF FINANCIAL MANAGEMENT AND CONTROL DEVELOPMENT AT THE PUBLIC FUND BENEFICIARIES (to be responded by the public fund beneficiaries for which assurance/internal audit services were provided during the reporting period)

24.1. State the internal audit opinion on the level of financial management and control in the reporting period based on assurance services provided (enter up to three key findings):

³⁵ The text of the Consolidated Annual Report for 2020 is available on the following website: <https://mfin.gov.rs/o-ministarstvu/konsolidovani-godinji-izvetaj>

25. THE POSITION OF THE MANAGER OF THE USER OF PUBLIC FUNDS ON THE STATUS OF INTERNAL AUDIT IN YOUR ORGANISATION	
25.1 <i>The purpose of internal audit</i> is to assist the organisation in achieving its objectives by assessing and evaluating the organisation's risk management, controls and governance in a systematic and disciplined manner. With this in mind, please rate on a scale of 1 to 5 how satisfied you are with the contribution that internal audit makes to your organisation:	<input type="checkbox"/> 1 – Completely dissatisfied <input type="checkbox"/> 2 – Partially dissatisfied <input type="checkbox"/> 3 – Neither satisfied nor dissatisfied <input type="checkbox"/> 4 – Partially satisfied <input type="checkbox"/> 5 – Completely satisfied
25.1.1. Please elaborate the score:	
25.2. Does your organisation's internal audit unit have sufficient personnel capacity (number of internal auditors employed) to carry out the work of internal auditing?	Yes <input type="checkbox"/> No <input type="checkbox"/>
25.2.1. If the answer is NO, please state the reason:	
25.3. Were there any additional appointments to the position of internal auditor in your organisation in 2023?	Yes <input type="checkbox"/> No <input type="checkbox"/>
25.4. Are you planning to hire/transfer employees/engage additional external employees to perform internal audit activities?	Yes <input type="checkbox"/> No <input type="checkbox"/>
25.4.1. If the answer is NO, please state the reason:	
<p>25.5. Internal auditor training takes a lot of time and in most cases, the certificate of a certified internal auditor in the public sector of the RS is obtained while working at an internal auditor's workplace. Internal auditing can also be carried out by candidates for the title of certified internal auditor in the public sector.</p> <p>Possession of this certificate, which is listed as a mandatory requirement for filling the position of internal auditor, can be a limiting factor in the search for quality personnel.</p> <p>Have you listed passing the examination to obtain the title of certified internal auditor in the public sector as a required qualification for filling internal auditor position?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> For some YES, for Some NO
25.6. The existing status of internal auditors in terms of title and associated salary in relation to other positions in the organisation and in terms of the expertise, complexity of work and authority required:	<input type="checkbox"/> 1 - strongly underestimated <input type="checkbox"/> 2 - slightly underestimated

	<input type="checkbox"/> 3 - adequate <input type="checkbox"/> 4 - slightly overestimated <input type="checkbox"/> 5 - strongly overestimated
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<hr/> (signature of the head of the internal audit/internal auditor)	<hr/> (signature of the manager of the public funds beneficiary and stamp)
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SPECIAL PART

1. OVERVIEW OF ASSURANCE SERVICES PERFORMED (AUDITS)³⁶									
List all audits performed in the reporting period along with the number of recommendations by type of recommendation and key recommendations for each audit.									
Audit number, date and name:									
Number of recommendations per recommendation type ³⁷ :									
1	2	3	4	5	6	7	8	9	Total
Recommendations: ³⁸									
Audit number, date and name:									
Number of recommendations per recommendation type									
1	2	3	4	5	6	7	8	9	Total
Recommendations:									
Audit number, date and name:									
Number of recommendations per recommendation type:									
1	2	3	4	5	6	7	8	9	Total
Recommendations:									

³⁶ Table 2 can be copy-pasted, as needed, to include all assurance services performed (audits).

³⁷ State number of recommendations per type of recommendation (area): **1- Internal rules and procedures; 2 – Planning; 3 – Income and revenues; 4 – Public procurements and contracts; 5 – Payroll; 6 – Payments and transfer of funds; 7 – Accounting and financial reporting; 8 – Information systems.**

³⁸ Recommendations from the audit summary report.

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

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

Audit number, date and name:

Number of recommendations per recommendation type:

1	2	3	4	5	6	7	8	9	Total

Recommendations:

Audit number, date and name:

Number of recommendations per recommendation type

1	2	3	4	5	6	7	8	9	Total

Recommendations:

Audit number, date and name:

Number of recommendations per recommendation type:

1	2	3	4	5	6	7	8	9	Total

Recommendations:

3. OVERVIEW OF CONSULTING SERVICES PROVIDED³⁹

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

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

Number, date and title of the advisory service report:

Brief description from the advisory service report:

³⁹ New rows can be added to Table 4 according to the needed, i.e., number of consulting services performed.

4. OVERVIEW OF CONSULTING SERVICES PROVIDED (table can be duplicated)
List all consulting services provided in the reporting period, with a brief description from the report on consulting services.
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:
Number, date and title of the advisory service report:
Brief description from the advisory service report:

5. LIST OF INTERNAL AUDIT STAFF**(new table cells can be added if necessary)⁴⁰**

No.	First name	Last name	Job title	Number of certificates of certified public sector internal auditors
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				

⁴⁰ Add new rows to Table 5 according to needs, i.e., the number of internal audit employees.

Annex 5. Statement on Internal Controls

Name of public funds beneficiary

Annex 1a

Statement on Internal Controls for year⁴¹

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *YEAR*, as well as internal audit report, report of the State Audit Institution, external audit report⁴², for *YEAR*, as well as other available information

I, *First and last name, Title of Head of PFB*

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

place,
date

(signature of a head

of public funds beneficiary)

First and last name of a Head of PFB

Title of Head of PFB

⁴¹ Internal Control Statement form submitted in case of weaknesses identified in the internal control system.

⁴² If the audits concern the reporting period.

Statement on Internal Controls for year⁴³

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *YEAR*, as well as internal audit report, report of the State Audit Institution, external audit report⁴⁴, for *YEAR*, as well as other available information

I, *First and last name, Title of Head of PFB*

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

Identified weaknesses in the internal control system are eliminated as quickly as possible.

place,
date

(signature of a head
of public funds beneficiary)

First and last name of a Head of PFB
Title of Head of PFB

⁴³ The internal control statement form, which is submitted when certain weaknesses have been identified in the internal control system that do not affect compliance with the principles of legality, regularity and sound financial management.

⁴⁴ If the audits concern the reporting period.

Statement on Internal Controls for *year*⁴⁵

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *YEAR*, as well as internal audit report, report of the State Audit Institution, external audit report⁴⁶, for *YEAR*, as well as other available information

I, *First and last name, Title of Head of PFB*

I hereby state that there are weaknesses in the system of internal controls⁴⁷ that can negatively affect compliance with the principles of legality, regularity and sound financial management. Identified weaknesses in the internal control system are eliminated as quickly as possible.

place,
date

(signature of a head
of public funds beneficiary)

First and last name of a Head of PFB
Title of Head of PFB

⁴⁵ The internal control statement form, which is submitted when certain weaknesses have been identified in the internal control system that might negatively affect compliance with the principles of legality, regularity and sound financial management.

⁴⁶ If the audits concern the reporting period.

⁴⁷ Scores from the Internal Control Self-Assessment Questionnaire that you are not satisfied with, weaknesses pointed out by audits or observed in the organisation itself, etc.

Annex 6. Recommendations from the EC Serbia Report 2023

The CHU regularly monitors the implementation of recommendations made by the EC in the frame of the process of accession in the context of Chapter 32 – Financial control. In this reporting period, Serbia is moderately prepared in the area of financial control. In particular, there has been limited progress in the continuous implementation of the PIFC. In general, additional efforts are needed to embed managerial accountability in the administrative culture and to strengthen the functioning of internal control and internal audit. Of the 12 recommendations, the monitoring of 8 falls under the responsibility of the CHU and is directly related to the implementation status of the PIFC. Other recommendations do not fall under the direct responsibility of the CHU, but the CHU actively participates in them.

The most important recommendation for PIFC for 2023 are the following:

Recommendation 1	It is necessary to ensure a complete natural and logical link between the legal grounds of the PIFC and the general legal framework.
Status	Realised.
Follow-up	The coherence of the PIFC regulations with other horizontal regulations has been analysed. The conclusion is that the legal framework of the PIFC is largely connected and coherent with the general legal framework.
Recommendation 2	Establish an effective internal audit function in all central budgetary institutions (repeated recommendation from the EC Annual Progress Report for 2022).
Status	Implementation in progress.
Follow-up	At the central government level, the insufficient number of auditors in the ministries is particularly striking. The status of staffing at IA at the PFBs is regularly monitored through the IA reports, and CAR makes recommendations for the establishment and staffing of IA capacities at the PFBs. In 2023, the focus was on improving the legal framework in the area of IA and modernising training in the area of PIFC. The aim of the legislative changes in the area of IA is to improve the process of certifying internal auditors and to organise IA more efficiently in the public sector. The CHU is, within the PRUJF for 2021-2025th year, determined the activities that were completed during the amendments and additions to this document, in the reporting period, and an activity related to the improvement of the labour status of internal auditors was introduced. The CHU is continuously working to systematically improve the position of internal auditors and to increase the attractiveness of the professions and the competitiveness of working conditions.
Recommendation 3	Improve capacity to implement internal control standards, including risk management, at central and local levels and incorporate elements of internal control into the administrative culture of the public sector (repeated recommendation from the 2022 EC Report).
Status	Implementation in progress.

Follow-up	<p>The annual reports submitted by the PFBs serve to monitor whether users are aware of the CHU's recommendations from CAR and whether the CHU's recommendation to improve the risk management segment is implemented within the organisation.</p> <p>Of the total number of PFBs that submitted reports, 77.58% stated that they were familiar with the content of the recommendations to further develop and improve the FMC system in the public sector made in the CAR for the past year. However, the implementation of the recommendations regarding the improvement of the risk management area, the additional allocation of adequate resources for the development and improvement of the FMC system and the regular updating of the APs is not sufficient and further improvements are needed in this area.</p> <p>CHU will implement further actions to improve PFBs risk management outcomes through direct project support under PAR activity 4.1 Improving the FMC system in public sector institutions targeted by activity 4.1.3 Improving risk management in the PFBs priority group at central level. Capacities at the central level will also be improved through the implementation of the activity 4.1.4 Development of practical methodological tools / financial management and control knowledge products adapted to the specifics of certain significant groups of indirect IBBs at central level (selected departments). The following activity is foreseen at the local level 4.1.5 Support to the establishment and enhancement of the FMC system at local level.</p>
Recommendation 4	Implement the IA recommendations in a timely manner and continue to work on evaluating the quality of IA (repeated recommendation from the 2022 EC Report year).
Status	Implementation in progress.
Follow-up	<p>In order for the recommendations of IA to be implemented in a timely manner, it is important that managers are aware of the importance and role of IA. The CHU is actively working to increase the knowledge and awareness of managers and staff about the importance of the PIFC through training and methodological materials. The CHU has improved the guidelines for internal assessment of the quality of IA work and the model for internal assessment of the quality of IA work and made them available on the MF/CHU website.</p> <p>The CHU also regularly monitors the CAR's implementation of the recommendations from IA at the PFBs.</p> <p>The internal auditors made a total of 6121 recommendations to improve business processes and reduce identified risks to an acceptable level. The number of recommendations made fell by around 6 compared to the previous year.</p> <p>All PFBs implemented a total of 3581 recommendations, representing 59% of the total recommendations made. Since this indicator speaks of the implementation of recommendations in the same reporting period in which the recommendations were made, it is also necessary to take into account recommendations made at the end of the reporting period whose implementation will objectively only be possible in the next reporting period</p>

	<p>Compared to the previous year, the OMSIs' rate of implemented recommendations remained high at 96%. This indicator speaks of OMSIs' management high awareness of the importance of IA and its reports and recommendations to management and the organisation.</p> <p>The highest percentage of unimplemented recommendations is found in ministries with administrative bodies in their composition as well as in the DBBs in LSGs and other PFBs (such as PUCs) whose founder is the local government. This indicates an insufficient understanding of the need and importance of addressing identified weaknesses in business processes.</p>
Recommendation 5	It is necessary to ensure in practise that the establishment of an irregularity reporting system for budget users is in line with the Guidelines for the management of irregularities.
Status	Implementation in progress.
Follow-up	<p>Article 18 of the FMC Rulebook provides that PFB Heads are required to establish a system for detecting, recording and acting upon reports of suspected irregularities in the organisation they manage, as well as a system for reporting on the management of irregularities, and is also required to take precautions to reduce the risk of irregularities.</p> <p>Managers, employees or third parties shall report deviations, inconsistencies or breaches of written rules that constitute an irregularity or give rise to a reasonable suspicion that an irregularity has occurred, irrespective of its extent and significance and whether committed intentionally or negligently.</p> <p>In the RS, the laws prescribe the procedures in the individual areas of work, the penalties for non-compliance with the prescribed provisions and the organisations competent for acting in these situations.</p>
Recommendation 6	Ensure that all institutions that are required to establish an IA unit do so and ensure a sufficient number of auditors.
Status	Implementation in progress.
Follow-up	<p>The Amendments to the Rulebook on IA and the Rulebook for Certification have been adopted. The amendments are aimed at ensuring greater coverage of the public sector of the Republic of Serbia by the internal audit function. The criteria for the establishment of the internal audit function at the PFBs, which implies the employment of a larger number of auditors in key state authorities as well as the strengthening of training capacities and the acceleration of the certification process of internal auditors, have been specified.</p>
Recommendation 7	Improve the use of the CHU Annual Report as a tool for improving the PIFC and ensure its timely publication (repeated recommendation from the 2022 EC Annual Progress Report).
Status	Complied with (to the extent possible)
Follow-up	<p>All the most important categories of PFBs in accordance with the list of PFBs of the Treasury Administration are included in the analysis of the status of the FMC and IA carried out by the CHU, which also identifies weaknesses, and provides recommendations for the establishment and improvement of the FMC system and IA activities at PFBs. The CAR is adopted by the Decision of the Government and previously considered by the relevant committees of the government.</p>

	<p>The Decision of the Government adopting the CAR provides a summary of the main recommendations submitted to the main PFBs for implementation. In the Conclusion with which the RS Government adopted the CAR, the most important PFBs were highlighted individually and specific recommendations were made to improve the FMC and internal audits. The government's Conclusion has been updated with a new requirement for the PFBs. In addition to the instruction to implement certain measures in accordance with the Conclusion, they must now also report to the CHU on the implementation of these activities within a certain timeframe.</p> <p>The report is complex, detailed and based on advanced and extensive analysis. Its current appearance is the result of EC recommendations and the work with SIGMA, as well as of continuous improvements made by the CHU. This is the reason why its preparation takes a long time. The introduction of the electronic reporting application resulted in the acceleration of the preliminary data processing and, in parallel, in the further improvement of the analysis. The form of the FMC report has been changed in terms of structure and the way the FMC report is completed, enabling the PFBs to efficiently and objectively assess the application of the principles of the COSO framework in their organisation.</p> <p>It may be that a faster production of the report would be possible if the deadline for submission by PFBs was brought forward, which is not possible due to the financial reporting timetable and the overlap this creates. Considering that almost compliance with all recommendations require more than one year and that the report follows the situation in the PIFC, which is a slow process that is inevitable, speeding up its publication would not bring much.</p>
Recommendation 8	Expand the implementation of peer reviews of the quality of the IA function among public fund beneficiaries and ensure sustainability by adopting regulations to simplify (facilitate) and standardise the process.
Status	Implementation in progress.
Follow-up	<p>An overview of the internal audit work was carried out for 6 public fund beneficiaries for the period from 1 October 2022 to 30 September 2023. The review was carried out at the following PFBs:</p> <ol style="list-style-type: none"> 1. Ministry of Construction, Transportation and Infrastructure 2. Ministry of European Integration 3. Ministry of Mining and Energy 4. Ministry of Internal and Foreign Trade 5. Town of Užice 6. Town of Novi Sad <p>A programme with a methodology for assessing the quality of the IA's work has been developed, as part of the PRUJF for 2021-2025. Activity 4.2.5 Implementation of external quality assessment using the peer review method (training and certification of assessors, adoption and implementation of the external quality assessment programme) is</p>

	<p>planned for the year that provides for the further development of this area.</p> <p>For detailed information, please refer to Section 2.2.7 Internal Audit Activity Performance Review</p>
The main recommendations of EC for the year 2023, which CHU is actively involved in implementing, but is not the main contributor to the activity:	
Recommendation 9	It is necessary to adopt a plan for managerial accountability and ensure its effective implementation.
Status	Implementation in progress.
Follow-up	For detailed information, please refer to Section 3.2. Improvement of the Managerial Accountability Concept .
Recommendation 10	High-level political support remains crucial for the necessary transition to performance management and the implementation of PIFC reforms in all public sectors (permanent recommendation).
Status	It is being permanently implemented.
Follow-up	The CAR is adopted by the Government and is previously considered by the relevant government committees. The Government's Conclusion, by which the CAR is adopted, contains a summary of the most important recommendations, which are submitted to the most important PFBs for implementation.
Recommendation 11	Address weaknesses in the management of performance and lines of accountability between independent bodies and their parent institutions, as part of existing efforts under the public administration reform framework (repeated recommendation from the 2022 EC Annual Progress Report).
Status	Implementation in progress.
Follow-up	<p>In developing the roadmap for improving managerial accountability, it was proposed to address the key elements of this issue in this document and raise them to the level of WG within the Government.</p> <p>For detailed information, please refer to Section 3.2. Improvement of the Managerial Accountability Concept.</p>
Recommendation 12	It is necessary to fully establish the analytical units in the ministries.
Status	Implementation in progress.
Follow-up	<p>As part of the Regulatory Reform and Improved Public Policy Management Programme for the period 2021-2025, the introduction of analytical units at national level was planned. Support for this initiative included the development of Guidelines for the Establishment, job descriptions and the necessary competences for staff.</p> <p>As part of the “<i>EU PFM Facility</i>” project, the current situation in the ministries is being analysed and it is planned to draw up Guidelines for the analytical units.</p>

Annex 7. Status of Recommendations from the CAR on PIFC for 2022

The recommendations from the Consolidated Annual Report on PIFC relate to the FMC system and IA function and are regularly followed-up.

P. 1. Management should devote adequate resources in terms of capacity and knowledge of the FMC Methodology and the organisation itself and ensure regular reporting on the internal control system.

Status Perennial recommendation. Progress.

Progress has been recorded in all indicators.

INDICATORS FOR MONITORING THE RECOMMENDATION 1	Increase / decrease in %	Total % PFBs
A manager for the FMC was appointed in the PFB.	+5.35	74.34
The WG for FMC was formed in the PFB	+6.68	71.92
Appropriate resources have been used to organise the establishment of the FMC system	+4.73	62.05
Managers and employees took part in a training course organised by the CHU	+0.35	27.40
Managers and employees attended the FMC training courses that were not organised by the CHU	+6.12	43.20
The PFB uses the FMC manual developed by the CHU	+4.30	81.69
The PFB uses the guidelines for the management of irregularities	+20.84	47.63
The PFB uses the guidelines for risk management	+11.10	64.06
The PFB uses the Guidelines on Managerial Accountability	+24.29	39.68
The PFB uses the Guidelines on Delegation System	+14.66	21.92
The PFBs uses the FMC Guidelines for small PFBs	+3.65	41.83

P. 2. Particular attention should be paid to the issue of ensuring adequate staff potential and work should be done to develop a sustainable policy for attracting and retaining staff and to improve the system of promotion, rewards and their training.

Status Perennial recommendation. Partial progress.

The indicators suggest that there was progress in some segments, but a significant deterioration was observed in important segments compared to last year.

INDICATORS FOR MONITORING THE RECOMMENDATION 2	Increase / decrease in %	total % PFBs
The organisation has adequate number and structure of employees	-7.25	55.16
The PFB has ensured attraction and retention of the competent staff	-10.30	22.05
The system for promoting employees in the organisation is transparent and based on performance	+9.85	54.93
Appropriate motivation mechanisms have been introduced in the organisation	-1.79	52.33
The organisation has created conditions for the development of employees' competencies	+1.56	85.30

P. 3. The PFBs should improve risk management with the help of the guidelines and tools developed by the CHU. In this context, it is necessary for the PFBs to adopt a risk management strategy, establish a risk register and implement control activities.

Status Perennial recommendation. Progress.

Progress has been recorded in all indicators.

INDICATORS FOR MONITORING THE RECOMMENDATION 3	Increase / decrease in %	total % for all PFBs
The PFB uses the Guidelines for Risk Management	+11.10	64.06
The Risk Management Strategy has been adopted.	+8.52	68.58
The Risk Register has been developed.	+9.25	56.67
Control activities are being selected and developed.	+11.86	50.46
The organisation has established policies and procedures for the business processes and day-to-day activities of employees that include the control activities	+8.25	73.79
In practise, control activities are performed in a timely manner in accordance with the procedures	+7.58	71.10

P. 4. It is necessary to regularly update the AP and the Risk Register and periodically review the adequacy of the procedures.

Status Multi-year recommendation. Partial progress.

Although there has been significant growth in certain indicators, the situation is still not satisfactory.

INDICATORS FOR MONITORING THE RECOMMENDATION 4	increase/ decrease in %	total % for all PFBs
The organisation implements a recommendation to regularly update the AP	Not applicable	53.54
The organisation regularly reviews and redesigns control activities	+9.72	51.00
Inappropriate procedures/control activities are identified and changes are proposed (change of procedures, cancellation of ineffective and inefficient control activities, introduction of new control activities)	- 1,96	43.79
Procedures are changed and other adjustments are made in situations where frequent exceptions or deviations from existing rules and procedures are identified	- 4,81	37.49
The Risk Register is regularly updated	+8.74	61.97

P. 5. It is necessary to improve:
 (a) the way in which organisations deal with the remediation of identified deficiencies in the system of internal controls;
 b) the way in which information on non-conforming behaviour (suspected irregularities, complaints, etc.) is recorded; and
 c) procedures (written and unwritten) that enable employees to inform management of perceived weaknesses in the internal control system.

Status Perennial recommendation. Partial progress.

Although there has been significant growth in certain indicators, the situation is still not satisfactory.

INDICATORS FOR MONITORING THE RECOMMENDATION 5	increase/ decrease in %	total % for all PFBs
Information on identified deficiencies/weaknesses of the FMC is made available to management in a timely manner	+8.77	59.22
Information on identified deficiencies/weaknesses of the FMC is provided to those responsible and accountable for remediating the deficiencies/weaknesses of the FMC	+9.05	47.35
Identified deficiencies in the FMC (errors, omissions, illogicalities, limitations, etc.) are analysed and the causes identified	-4.04	41.55
The organisation's response (appropriate actions) to address the deficiencies/weaknesses of the FMC is determined in a timely manner	+6.62	43.56
Actions to eliminate observed deficiencies/weaknesses of the FMC (not related to the implementation of internal and/or external audit recommendations) are carried out in a timely manner	-1.15	46.12
The implementation of actions to eliminate deficiencies/weaknesses is monitored	-2.69	53.97
In the event that adequate actions to eliminate deficiencies/weaknesses are not implemented in a timely manner, the top management is informed about this	-4.10	44.93
There is a centralised recording of information about behaviour that is not in accordance with the standards, including suspicions of irregularities, complaints, etc.	+13.53	41.87
The analysis/assessment of information on non-standard is being conducted by persons who are independent in relation to the persons whose conduct is the subject of the report	+10.05	44.93
The employees can give their proposals for the improvement of the FMC	+7.77	73.20

P. 6. There is a need for DBBs (primarily line ministries and LSGs) to be more involved in the function of improving the monitoring and improvement of the FMC system of their IBBs.

Status Perennial recommendation. Progress.

The CHU, in co-operation with the Ministry of Education, has created a new form for the annual report on the FMC and IA system for educational organisations. The form is adapted to the needs of primary and secondary schools and thus provides a better basis for further improvement of the FMC system in this very large category of PFBs.

P. 7. An overview of the results achieved by the main organisations that received the recommendation in the CAR in 2022 to start regular reporting and the development of the FMC system, as well as the following documents: Business Process Maps, Risk Management Strategy and Risk Register.

Status Partially implemented recommendation.

Monitoring the implementation of the recommendations from the previous CAR and the Government's conclusion

PFBs	Reports submitting	Risk Management Strategy	Risk register	Business Process Maps
ministries				
Ministry of the Interior		✓	✓	✓
Ministry of Education			✓	✗
Ministries Science, Technological Development and Innovations		✗	✗	✗
Ministry of the Foreign Affairs		✗	✗	✓
Ministry of Rural Welfare			✓	✓
Ministry of Family Welfare and Demography		✗	✗	✗
Ministry of Human and Minority Rights and Social Dialogue		✗	✗	✓
Ministry of Culture		✗		
Ministry of Information and Telecommunications		✓		
Ministry for Public Investment		✗		
Ministry of Agriculture, Forestry and Water Management		✗	✗	
Towns				
Smederevo			✗	
Kraljevo			✗	
Zaječar			✓	
Loznica				✗
Novi Pazar		✗	✗	✗
Leskovac				✗
Valjevo				✗
Prokuplje	✓			
PEs				
” Mreža Most”			✗	✗
“Državna lutrija Srbije”, d.o.o.		✗	✗	✗
“Metohija”, d.o.o.				✗
D.o.o. Tvrdava Golubački grad Golubac.		✓	✗	✗
“Srbijavoz” a.d.		✗	✗	
a.d. “Elektroprivreda Srbije”			✗	
” Stara Planina”			✗	
PE “Resavica“			✗	
“Nacionalni park Kopaonik”	✓			
Nature Park “Mokra Gora” d.o.o.	✗			

*Empty fields in the table indicate that the institutions did not have any recommendations on these three documents in 2022

** The symbol ✓ indicates that the document was created/adopted in this organisation

*** The symbol ✗ indicates that the document was not created/adopted in this organisation

P. 8. PFBs should in accordance with the obligations under Article 3 to Article 6 of the IA Rulebook establish the IA function, to harmonise the systematisation, job descriptions and number of staff members for the internal auditor posts and to fill the internal auditor posts. Priority institutions from among individual ministries and cities/towns are listed, which should fulfil this obligation as quickly as possible.

Status Multi-year recommendation, partial progress.

Based on the data presented on the PFBs at the central level, there has been an 18% increase in the number of normatively established internal audit functions, a 70% increase in the number of functionally established internal audit functions and an 11% increase in the number of systematised working posts, but also an increase in the number of filled internal audit posts by only 2% in 2023 compared to 2022. The main contributor to this growth was the increase in the category of “RHIF beneficiaries”, i.e. healthcare institutions in the public sector and the category “other PFBs”, due to the engagement of individual certified internal auditors under the agreement for the performance of internal audit work.

According to the data presented, in the PFBs at the local self-government level, in 2023, compared to 2022, there is an increase of 13% in the number of IA functions established normatively and 41% in the number of IA functions established functionally, an increase of 14% in the number of systematised posts and 14% in the number of internal auditor posts filled. For further details on the follow-up and implementation of this recommendation, please refer to [Annex 3 - Overview of the establishment of IA at PFBs](#) and

P. 9. For the proper establishment of the IA function, the role of PFB managers is crucial. Therefore, those managers who have not adequately ensured the function of IA in their organisation they head and in addition they should fill the posts of internal auditors.
The IA Rulebook will allow for the independence of IA so that auditors will not perform any other duties except those in the IA areas.
In addition, PFB management must work to ensure that the recommendations of IA are adequately implemented and that internal auditors receive professional development. The management of the auditee must ensure that timely reports are sent to internal audit on the implementation of the activities designed to comply with the recommendations made and accepted within the agreed deadlines.

Status Perennial recommendation. Partial progress.

The follow-up of the implementation of this recommendation is continuously carried out through the Annual Reports on Internal Audits, and [3.2.5 Continuous professional development of certified internal auditors](#) and detailed information is in Section [2.2.2 The internal audit function](#), [2.2.5 Status of internal audit recommendations](#).

P. 10. Heads of internal audit units, which are functional, should adopt a quality assurance and improvement programme and conduct an internal IA performance review in accordance with the recommended existing internal performance review model for internal audit units.

Status Perennial recommendation, partial progress.

Follow-up is carried out continuously through the annual reporting process. For detailed information on the implementation of the recommendation, please refer to Section [2.2.2 Internal audit function](#) and through [internal audit activity \(2.2.7\)](#).

P. 11.	The PFB and its IA must ensure that the annual plan IA is realistic, appropriate and consistent with the risk assessment.
Status	Partial progress.

Follow-up is carried out continuously through the annual reporting process.
For detailed information, please refer to Section [2.2.4 Overview of performed assurance services](#) and Section [2.2.6 Internal audit consulting services](#).