



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

**CONSOLIDATED ANNUAL REPORT
ON THE STATUS OF PUBLIC INTERNAL FINANCIAL CONTROL IN THE
REPUBLIC OF SERBIA IN 2020**

Belgrade, August 2021

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List of Abbreviations:

ABV – Autonomous Province of Vojvodina	audit activity and reporting in the public sector
AP – Action Plan	IBBs – Indirect Budget Beneficiaries
AP KiM – Autonomous Province of Kosovo	IIA – Institute of Internal Auditors
AP PIFC – 2019–2020 Action Plan for the implementation of the Public Internal Financial Control Strategy in the Republic of Serbia for the 2017–2020 period	INTOSAI – International Organization of State Audit Institutions
BBs – Budget Beneficiaries	IPA – Instrument for Pre-accession Assistance of the European Union
BSL – Budget System Law	ISO – International Organization for Standardization (ISO)
CAR – Consolidated Annual Report	IT – Information Technologies
CHU – Central Harmonization Unit	LPS – Law on the Planning System
CIAs – Certified Internal Auditors	LSG – Local Self-Government
COSO – Committee of Sponsoring Organizations of the Treadway Commission (COSO)	MFIN – Ministry of Finance
DBBs – Direct Budget Beneficiaries	MPALS – Ministry of Public Administration and Local Self-government
EC – European Commission	MSI – Military Social Insurance
EU – European Union	MSIO – Mandatory Social Insurance Organizations
FMC – Financial Management and Control	NAPA – National Academy for Public Administration
FMC Manual – Financial Management and Control Manual	NES – National Employment Service
FMC Rulebook – Rulebook on common criteria and standards for the establishment and functioning of and reporting on financial management and control in the public sector	NHIF – National Health Insurance Fund
GenSec – General Secretariat of the Government of Serbia	Pandemic – <i>COVID-19</i> pandemic caused by the <i>SARS-CoV-2</i> virus
GIZ – German International Cooperation Organization - Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	PAR – Public Administration Reform
HRMS – Human Resources Management Service	PAR Strategy – Public Administration Reform Strategy
IA – Internal Audit	PE – Public Enterprises
IA Rulebook – Rulebook on common criteria for implementing and standards and methodological guidelines for internal	PFB – Public funds beneficiaries
	PFMR Programme – Public Finance Management Reform Programme 2016–2020
	PIFC – Public Internal Financial Control
	PIFC Strategy – Public Internal Financial Control Strategy
	PLS – Public Legislation Secretariat
	PPS – Public Policy Secretariat
	PUC – Public Utility Companies
	RELOF 2 – Local Government Finance Reform project (RELOF)

RS – Republic of Serbia

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

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

SAI – State Audit Institution

SECO – Swiss State Secretariat for Economic Affairs

SIDA – Swedish International Development Cooperation Agency

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

Twinning Project – European Union instrument for institutional cooperation between Public Administrations of EU Member States and of beneficiary country

UNDP – United Nations Development Programme

WG – Working Group

EXECUTIVE SUMMARY

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

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

The CAR also contains information on monitoring of implementation of recommendations made by the European Commission in its Report on Serbia's progress and performance in the EU accession process, and on the follow up to the recommendations made in the CAR for the previous year, as well as on the progress made in the implementation of the Public Internal Financial Control (PIFC) Strategy and related Action Plan (AP).

The most prominent result is that the Internal Control Statement, that PFB managers are required to sign and submit as part of the FMC report, has become an established practice. In this Statement, the PFB manager confirms that he/she has obtained reasonable assurance on the level of compliance of the FMC system in the organization he/she manages with international internal control standards, on the efficiency and effectiveness of the internal control system, and that the organization is managed in accordance with good governance principles. In addition to this, for the 2020 reporting period, PFBs have begun reporting on the management of irregularities. The Twinning Project implemented with the French Ministry of Finance and Economy was successfully brought to a conclusion. As part of this project, a full set educational materials was prepared, so that the knowledge base offered by the CHU from various areas of internal control is now exceptionally rich. The CHU application is now fully functional and PFBs submit their reports electronically.

The analysis of the individual reports received indicates that the most important institutions and public enterprises (PEs) in Serbia are reporting on the status of the FMC system. Total expenditures and outlays of all direct budget beneficiaries included in the CAR account for approximately 97.52% of the total state budget expenditures and outlays in 2020. PEs at central level that submitted an FMC report account for 99.90% of the total revenues of the PEs' group. At local level, the authorities and services of the province and the cities largely fulfil their statutory reporting obligation, at least when it comes to the coverage of the total budget. The APV institutions that submitted the FMC report manage 99.97% of the total budget of the province. Cities that submitted FMC reports manage a 96.68% share of the total budgets of cities, whereas municipalities that submitted FMC reports manage 81.54% of the total budget of municipalities. Other PFBs at local level (PUCs) that submitted FMC reports manage 82.12% of total revenues in this category.

¹ (RS Official Gazette No 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - correction, 108/2013, 142/2014, 68/2015 – as amended, 103/2015, 99/2016, 113/2017, 95/2018, 31/2019 and 72/2019).

The status of the financial management and control system is assessed from the perspective of the COSO internal control framework. Further progress was noted in the rating of the application of COSO framework principles by public funds beneficiaries regularly reporting to the Central Harmonization Unit (CHU). Mandatory social insurance organizations (MSIOs), public enterprises (PEs), and ministries with constituent administrative bodies, clearly positioned themselves as leaders when it comes to the FMC system status rating. That said, some public funds beneficiaries at local level need to make improvements.

Overall, the results for the five COSO framework elements, control environment segments, control activities and especially the information and communication system deserve a solid rating. The key areas that require additional efforts to be made in a significant number of PFBs, are *monitoring and evaluation*, as well as *risk management*.

The most important PFBs are largely submitting their reports on implemented audits and internal audit activities. The scores indicate that a functional internal audit has been established in entities that account for over 85% of the budget of direct budget beneficiaries (DBBs) at the central government level, mandatory social insurance organizations (MSIOs), the Autonomous Province of Vojvodina (APV), cities, and public enterprises (PEs) at the central level.

Relative to 2019, a 23% increase was registered in the total number of PFBs with a functional internal audit system in place. The number of positions regulated in the internal staffing plan increased by 13%, while the percentage of vacancies filled in 2020 increased by 8% relative to the previous year. On the whole, according to all indicators, a positive trend was registered in the development of the IA function in the previous period.

The general conclusion regarding the establishment of internal audit in the public sector is that, to the extent of existing capacities, the level of development of internal audit is satisfactory, but significant improvements are still needed to optimize the internal audit function. While progress is evident in the development of internal audit, it remains slow, mainly due to insufficient capacities, i.e., an insufficient number of IA staff in PFBs.

Based on the analysis of annual reports of PFBs, information collected in the quality reviews of the financial management and control systems and internal audit activities of PFBs, as well as based on the progress made toward achieving the targets set out in policy documents (PIFC Strategy, PFMR Programme, PAR Strategy) and implementation of EC recommendations and previous annual reports on the status of PIFC, the latest edition of the CAR provides appropriate recommendations for the further development and improvement of the FMC system. Recommendations are also provided in the field of FMC and IA and are intended for PFBs, primarily DBBs (ministries, cities, etc.), to encourage them to lead by example in recognizing the value of internal control and to engage appropriately in development of the FMC system within the remit of PFBs and encourage its wider adoption.

Two out of the 8 EC recommendations (25%) made in its Report for 2020 have been implemented, while the implementation of the remaining 6 (75%) is still ongoing. In the frame of the Serbia 2020 Report, the EC assessed Serbia's progress in the field of public internal financial control (PIFC) as good. When it comes to the recommendations made in the PIFC CAR for 2019, 4 out of 16 recommendations have been implemented (35%), 3 were partially implemented (18.75%), and 4 are multiannual recommendations, so their implementation is still in progress (35%). Due to the pandemic, 4 recommendations (35%) could not be

implemented within the set time frame, and their implementation is still ongoing, while one recommendation is continuously implemented (6.25%).

The pandemic significantly affected the functioning of the PIFC. Its most prominent adverse effects were registered in IA, and are reflected in the decline in the number of recommendations, failure to implement advisory services, adjustments to annual plans, etc. Also, the pandemic made the implementation of traditional trainings conducted by CHU almost completely impossible and led to delays in the adoption of key PIFC planning documents. However, regardless of the circumstances, a lot has been accomplished, and the level of control has not significantly declined due to the pandemic. As the analysis shows, PFBs largely managed to cope with the new situation and adjusted their functioning to the circumstances.

The overall conclusion suggests that, even though the PIFC is a statutory obligation, introduced through the regulatory framework, its full implementation has yet to be achieved and further efforts are needed to improve this area.

I INTRODUCTION

1.1 Purpose and objective

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

1.2 Methodology of the Consolidated Annual Report

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

In accordance with the bylaws (IA Rulebook and FMC Rulebook), the CHU prepared an appropriate report form, in the form of a questionnaire, modelled on the templates in use in the EU and the US. The PFBs are required submit their individual reports to the CHU.

The annual report on the FMC system, in the self-assessment section, consists of 74 questions grouped in five areas (five components of the COSO model) representing the framework for internal control. A new segments was introduced with questions related to management of irregularities, recommendations from the CAR for the previous year, as well as the functioning of the system in the context of the pandemic. The internal control self-assessment scale entails the selection of one of the five offered answers ranging from “NO” to “YES” (on a scale from 1 to 5 where 1 is “NO” and 5 is “YES”), depending on the stage of development/implementation of the FMC system. The “YES” and “NO” answers must also be supported by evidence/documents or, alternatively, reasons justifying negative answers.

The questions in the annual report on audits and IA activities in 2020 were improved relative to the 2019 form. For detailed information on internal audit, please refer to the [2.2 Internal Audit](#) section.

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

Table 1. Classification of PFBs

Tier/level	PFB Category	PFB
	Ministries with constituent administrative bodies	Ministries, administrations, directorates. and

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

The above classification is based on the List of PFBs published by the Treasury Administration², whilst also taking into account EC requirements under Chapter 32 – Financial Control³. Considering the special importance of the ministries and their constituent administrative bodies, and that of PEs at the central level, these two categories are shown separately.

Most indicators for 2020 are disaggregated by PFB category. Especially when it comes to the report on the status of the FMC system and given that the list of PFBs submitting reports and the set of questions itself differ from year to year, a direct comparison of results is not possible.

The questionnaires are not only an instrument for data collection, but also a means of self-control for the PFBs. Bearing in mind that the results are based on self-assessment, the objectivity of the indicators should be looked upon with some reservations.

The Consolidated Annual Report (CAR) also contains information related to the monitoring of the implementation of recommendations made in the framework of the EC's annual reports on Serbia's progress and performance in the EU accession process, the monitoring of the implementation of recommendations presented in the CAR for the previous year, as well as the monitoring of the implementation of the PIFC Strategy and related AP.

² Please refer to the Rulebook on establishing and keeping records on public funds beneficiaries and requirements and procedure for opening and closing subaccounts of the consolidated treasury account with the Treasury Administration (RS Official Gazette No. 99/18 and 40/19).

³ Negotiation Chapter 32 – Financial control includes four main policy areas: PIFC, external audit, protection of the EU's financial interests and protection of the Euro from counterfeiting.

II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

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

The PIFC system includes the following three basic elements:

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

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

Serbia's existing legal framework is based on international internal control standards. The FMC Rulebook states that the elements of the financial management and control system are defined in accordance with international internal control standards related to standards harmonized with the INTOSAI Internal Control Standards Guidelines for the Public Sector, which includes the COSO framework.

Also, the *IA Rulebook* prescribes the obligation to comply with the international internal audit standards⁴. The regulations governing the PIFC area are listed in [Annex 1 – Regulatory Framework and International Standards](#).

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

2.1 Financial Management and Control

2.1.1 Concept and definition

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

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

- 1) control environment;
- 2) risk assessment;

⁴ International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)

- 3) control activities;
- 4) information and communication;
- 5) monitoring (supervision) and evaluation of the system.

The FMC system is based on the managerial accountability of managers at all levels, who are also responsible for the proper functioning of the FMC system within the organization they manage. This system also assists managers in performing their daily tasks and supports the organization in achieving its objectives by conducting business in accordance with the principles of lawfulness, economy, efficiency, effectiveness, and transparency.

2.1.2 Reporting rate

For the year 2020, a total of 2,578 PFBs submitted their annual reports on the FMC system and all of the received reports were included in the analysis.

Table 2 provides an overview of the major PFB reports that are included in the CAR.

Table 2 - Overview of FMC reports submitted by major PFBs included in the CAR for 2020

PFB category	Number of PFBs that submitted their reports	Reporting rate
Ministries	21	100%
MSIO	4	100%
Autonomous and independent state authorities	7	100%
Government services and offices and special organizations	26	76.47%
Judicial bodies (direct budget beneficiaries)	11	100%
PEs at the central level	36	87.80%
AP Vojvodina institutions	25	96.15%
Cities	25	89.29%
Municipalities	95	81.20%

A high reporting rate was registered in all categories of PFBs this year. In addition, we observed a significant increase in the number of reports submitted by IBBs, especially schools.

Total expenditures and outlays of all DBBs at central level (ministries with their constituent administrative bodies, judiciary, directorates, offices, agencies, institutes, services...), which are included in the CAR for 2020, make up 97.52% of the total expenditures and expenditures of Serbia's budget for 2020.

Cities that submitted their FMC reports manage 96.68% of the total budget of cities, while the municipalities that submitted their FMC reports manage 81.54% of the total budget of municipalities⁵. PEs at central level that submitted their FMC reports manage 99.90% of total revenues of the PE group. Other PFBs at local level (PUCs) that submitted their FMC reports

⁵ Excluding the territory of AP KiM. Considering that the organizations belonging to AP KiM have been working in difficult conditions and specific circumstances since 1999, their functioning is regulated by specific provisions and type of organization. In the light of the foregoing, the organizations in AP KiM were not able to submit their annual FMC reports.

manage 82.12% of total revenues in this category. AP Vojvodina institutions that submitted their FMC reports manage 99.97% of the total provincial budget.

The remaining PFBs that submitted their FMC reports are relatively small organizations with small budgets or few employees, hence, their relevance to the evaluation of Serbia's PIFC system is proportionally smaller.

The foregoing data suggest that the most important⁶ public sector institutions in Serbia are reporting on their respective FMC systems, thus, the analysis of reports received from them can provide relevant insights on the status of FMC in Serbia's public sector.

2.1.3 Introduction of the FMC system

Elements of the introduction and development of the FMC system

The FMC system entails the organizational introduction, implementation and development, and the plan for the introduction, implementation and development of this system is adopted by the PFB.

The introduction of the FMC in the organization is the initial step in the process of setting the system up, and consists of the following activities:

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

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

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

- preparing an action plan;
- adopting a risk assessment strategy;
- setting the PFB's mission, vision and key objectives;
- compiling a list of key processes (subprocesses) and describing the activities for each of them;
- drawing a map of business processes;
- documenting business processes and developing a flow chart;
- identifying risks at the level of business processes, assessment of risks and their ranking, decision-making on risk response, and establishment of controls (risk management)
- evaluation of internal control elements;

⁶ To present an overview of the status of FMC in PFBs, for the purposes of this report the category of "most important" institutions was defined as the group of ministries, MSIO, EP, and cities.

- compiling an overview of established controls, taking into account the most significant risks;
- compiling a list of the most important processes that are not defined in writing;
- analysing the existing and necessary controls, and making a decision on the necessary previous and subsequent controls;
- adoption of a plan for establishing necessary and eliminating unnecessary controls;
- monitoring the implementation of the plan;
- preparing an annual report on the establishment of the FMC system.

Evaluation of the elements of FMC system introduction

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

Table 1 in Annex 3 provides data related to the establishment of the FMC system disaggregated by PFB category. The data in this table reveal the following: 53.06% of all PFBs that submitted annual reports appointed an FMC manager, and 49.84% established a WG for the introduction and development of the FMC system. The situation is significantly better at the local level (65.13% and 65.56%, respectively) compared to central level (48.62% and 44.06%, respectively). This result is primarily a consequence of the unfavourable situation in almost all aspects of the establishment of the FMC system in the IBBs category, which accounts for 79.19% of all PFBs at the central level that submitted reports. In this particular case, 44.84% of IBBs has an FMC manager, and 40.55% has established a WG.

These data lead to the conclusion that the MSIO category is in the lead, bearing in mind that all of these organizations have either appointed an FMC manager or an FMC working group. In the case of ministries with their constituent administrative bodies (72.09% and 76.74%, respectively) and PEs (69.44% for both aspects), there is a need to further raise the level of understanding of PIFC in IBBs which need to establish and improve their FMC system.

This also applies to users of the NHIF funds (59.41% and 51.76%, respectively), as well as to DBBs at the central level, excluding ministries with constituent administrative bodies (52.24% and 46.27%, respectively). As regards local self-government bodies and PUCs at the local level, about 80% of these entities have a manager or WG.

An AP for the establishment of the FMC system was adopted in 33.86% of all PFBs, that is 26.65% at the central and 53.46% at the local level. While 100% of organizations in the MSIO category have adopted the said planning document. In PEs and ministries with constituent administrative bodies, this is the case only with every other entity (51.16% and 52.78%, respectively). On the other hand, about two thirds of DBBs and PUCs at the local level have adopted an AP. At the very bottom is the group of IBBs at the central level, of which only 21.72% confirmed they had adopted an AP. IBBs at the local level reported a slightly higher percentage (37.11%).

Only 28.04% of PFBs (20.22% at central level and 49.28% at local level) mapped their business processes. Apart from the MSIO category (100%), only other PEs at the central level (63.89%), local self-government bodies (65.50%) and other PFBs at the local level – PUCs (63.79%) show

to some extent satisfactory indicators. The unfavourable situation at the central level is best illustrated by the fact that less than half (48.84%) of entities from the category of ministries with constituent administrative bodies, and only about one-third of users of NHIF funds and DBBs at the central level, have mapped their business processes. In the case of IBBs at the central level, the percentage is almost negligible (14.41%).

Overall, 31.43% of all PFBs (29.54% at central level and 39.49% at local level) that lack business process maps, started compiling a list and making a description of business processes, as a preliminary step. Organizations from the “Other PFBs” category and “Other PFBs without PEs” (61.76%), as well as PEs (53.85%) in most cases started developing their business process maps, while in the category of ministries with constituent administrative bodies slightly less than half (45.45%) started these activities. At the local level, about 60% of PUCs and 50% of local governments started these activities. We found that the IBBs, both at the central (27.02%) and local level (27.75%), which in most cases do not have maps (over 85% at the central level, more than 70% at the local level), accounted for the smallest percentage of entities that have embarked on this process.

The risk management strategy was adopted by 37.74% (30.25% at central and 58.07% at local level), and the risk register was compiled by 32.74% of PFBs (25.80% at central and 51.59% at local level). A positive example in this case are the organizations from the MSIO category, which are the only ones that have fully established the basis for solid risk management. In contrast, just over half of the organizations from the categories of ministries with constituent administrative bodies (58.14% and 53.49%) and PEs (58.33% and 55.56%) have adopted a risk assessment strategy and compiled a risk register. In the case of DBBs, the situation is somewhat more favourable at the local level, as 79.53% of local governments have adopted the strategy, and 68.42% have created a risk register.

PFBs that have established internal controls in business processes based on the consideration of the most significant risks account for a 43.68% share (37.15% at central and 61.38% at local level). In the case of ministries with constituent administrative bodies, this share stood at 74.42%. The share of PEs is slightly higher (80.56%), while users of NHIF funds (64.12%) and especially the remaining DBBs excluding ministries with constituent administrative bodies (50.75%) lag behind, while at the local level, about three quarters of local self-government bodies and PUCs are in this group.

Introduction of the FMC system at organizational level in the most important PFBs

Ministries, MSIOs, PEs and local government bodies at city level as PFBs have a special responsibility in the establishment and development of the FMC system, having in mind their budgets and overall capacities, i.e., wider significance and general impact on flows in Serbia. In the case of ministries and cities, there is a need to provide concrete support in the process of developing the FMC system in IBBs under their responsibility. As already mentioned, the largest increase in the number of submitted reports was identified in IBBs, primarily schools. Based on the monitoring of average scores year-to-year, the latter had lower self-assessment results than all PFBs, both in total and by individual observed categories, thus affecting the average indicator of PFBs in the overall score.

Having regard to the foregoing, below, the CAR presents a more detailed overview of the establishment of the FMC system in individual PFBs in the mentioned four categories, primarily through the prism of two basic results – business process maps and risk registers. The focus is also

on identified shortcomings, i.e., on PFBs which are expected to take concrete steps to improve the situation in the FMC system.

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

b) Considering the importance of ministries, and the fact that they are expected to meet higher standards, the situation can be described as unsatisfactory, due to the following reasons:

- The following ten ministries failed to draw up business process maps:

- 1) Justice Ministry;
- 2) Ministry of the Interior;
- 3) Ministry of Health;
- 4) Ministry of Rural Welfare;
- 5) Ministry of Family Welfare and Demography;
- 6) Ministry of Human and Minority Rights and Social Dialogue;
- 7) Ministry of Education, Science and Technological Development;
- 8) Ministry of Agriculture, Forestry and Water Management;
- 9) Ministry of Environmental Protection and
- 10) Ministry of Foreign Affairs.

Of the foregoing, only the Ministry of the Interior, Ministry of Health and Ministry of Agriculture, Forestry and Water Management started compiling a list of business processes with descriptions.

- The following ministries did not adopt a risk management strategy:

- 1) Ministry of Justice;
- 2) Ministry of the Interior;
- 3) Ministry of Rural Welfare;
- 4) Ministry of Family Welfare and Demography;
- 5) Ministry of Human and Minority Rights and Social Dialogue;
- 6) Ministry of Agriculture, Forestry and Water Management;
- 7) Ministry of Environmental Protection and
- 8) Ministry of Foreign Affairs.

- The following ministries did not draw up a Risk Register:

- 1) Ministry of Justice;
- 2) Ministry of the Interior;
- 3) Ministry of Labour, Employment, Veteran and Social Affairs;
- 4) Ministry of Rural Welfare;
- 5) Ministry of Family Welfare and Demography;
- 6) Ministry of Human and Minority Rights and Social Dialogue;
- 7) Ministry of Education, Science and Technological Development;
- 8) Ministry of Agriculture, Forestry and Water Management;
- 9) Ministry of Environmental Protection and
- 10) Ministry of Foreign Affairs.

- The following ministries did not establish internal control, taking into account the major risks:

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

As many as 9 of a total of 21 ministries (42.86%) failed to reach the two basic results pertaining to the establishment of the FMC system, i.e., have neither a map of business processes nor a risk register. These are the following:

- 1) Ministry of Justice;
- 2) Ministry of the Interior;
- 3) Ministry of Rural Welfare;
- 4) Ministry of Family Welfare and Demography;
- 5) Ministry of Human and Minority Rights and Social Dialogue;
- 6) Ministry of Education, Science and Technological Development;
- 7) Ministry of Agriculture, Forestry and Water Management;
- 8) Ministry of Environmental Protection and
- 9) Ministry of Foreign Affairs.

It should be noted that the Ministry of Rural Welfare, the Ministry of Family Welfare and Demography and the Ministry of Human and Minority Rights and Social Dialogue were established in late 2020, so it is understandable that they did not succeed in establishing a FMC system by the end of the reporting period.

c) Out of 36 PEs at the central level that submitted their reports, the following 13 do not have a business process map:

- 1) Serbia Airports d.o.o;
- 2) Transportgas Serbia d.o.o;
- 3) PE Fruška Gora National Park;
- 4) PE Ponikve Airport;
- 5) Srbija Voz a.d.;
- 6) PE Stara Planina;
- 7) PE Mreža Most;
- 8) PE Rosulje Airport;
- 9) PE Resavica Coal Mines;
- 10) State Lottery of Serbia d.o.o;
- 11) PE Srbijagas;
- 12) Metohija d.o.o. Belgrade and
- 13) Golubac Fortress.

Of the listed PFBs, the following 7 started compiling a list of business processes with descriptions:

- 1) Transportgas Serbia d.o.o;
- 2) Srbija Voz a.d.;
- 3) PE Stara Planina;
- 4) PE Resavica Coal Mines;
- 5) State Lottery of Serbia d.o.o;
- 6) PE Srbijagas
- 7) Metohija d.o.o. Beograd.

The following 16 PEs compiled a Risk Register:

- 1) Serbia Airports d.o.o;
- 2) Transportgas Serbia d.o.o;
- 3) PE Fruška Gora National Park;
- 4) PE Ponikve Airport;
- 5) Srbija Voz a.d.;
- 6) PE Stara Planina;

- 7) PE Srbijavode;
- 8) PE Tara National Park;
- 9) PE Mreža Most;
- 10) PE Srbijasume;
- 11) PE Rosulje Airport;
- 12) Serbian State Lottery d.o.o;
- 13) Public company for shelters;
- 14) PE Elektroprivreda Srbije;
- 15) Golubac Fortress and
- 16) Srbija Voz a.d.

Based on the above data, we can see that the following 10 PEs (27.78%) did not meet any of the mentioned requirements of the process of establishing the FMC system:

- 1) Serbia Airports d.o.o;
- 2) Transportgas Serbia d.o.o;
- 3) PE Fruška Gora National Park;
- 4) PE Ponikve Airport;
- 5) Srbija Voz a.d.;
- 6) PE Stara Planina;
- 7) PE Mreža Most;
- 8) PE Rosulje Airport;
- 9) Serbian State Lottery d.o.o. and
- 10) Golubac Fortress.

The listed companies, and especially the large systems, must make appropriate efforts to correct the identified shortcomings. It should also be noted that the following public companies failed to meet their statutory obligation to submit annual reports on the FMC system:

- 1) PE Zavod za udžbenike;
- 2) Uvac Reserve d.o.o.;
- 3) PE Kopaonik National Park;
- 4) Nature Park Mokra Gora d.o.o. and
- 5) PE Šar Mountain National Park.

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

- The following cities did not map their business processes:
 - 1) Bor;
 - 2) Kruševac;
 - 3) Leskovac;
 - 4) Novi Pazar;
 - 5) Smederevo;
 - 6) Valjevo;
 - 7) Kragujevac and
 - 8) Niš.
- The following cities started the process of mapping and describing their business processes:
 - 1) Bor;
 - 2) Kruševac;
 - 3) Leskovac;
 - 4) Novi Pazar;

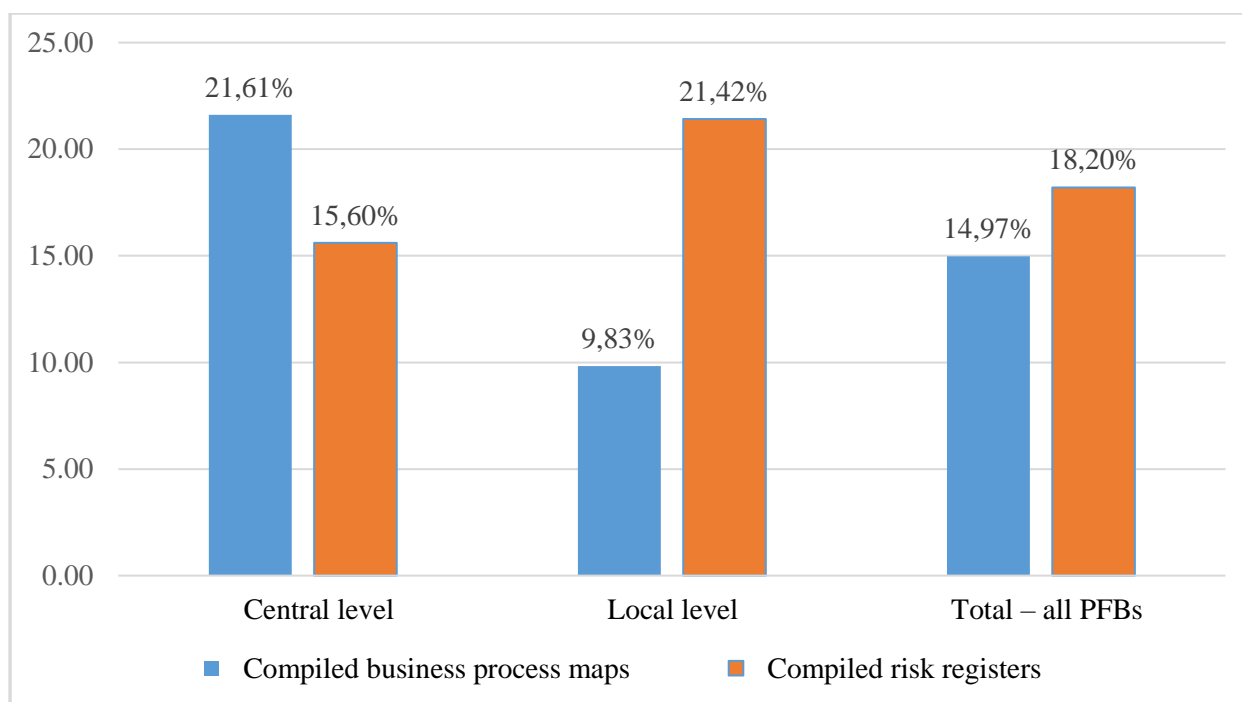
- 5) Kragujevac and
- 6) Niš.
- There is no Risk Register in:
 - 1) Novi Pazar;
 - 2) Smederevo;
 - 3) Zaječar;
 - 4) Valjevo and
 - 5) Niš.
- The following cities do not have a map of business processes or a risk register, which is 16% of submitted reports:
 - 1) Novi Pazar;
 - 2) Smederevo;
 - 3) Valjevo and
 - 4) Niš.
- The following cities did not submit their annual reports of the FMC system:
 - 1) Kraljevo;
 - 2) Loznica and
 - 3) Prokuplje.

The components for the establishment of an FMC system are a visible indicator of the level of institutionalization of this concept. In this context, the most important PFBs must improve their capacities and lead by example, demonstrating the positive effects and value created by internal control. In this way, the DBBs first and foremost (ministries, cities, etc.) will be in a position to engage in the development of the FMC system of PFBs under their responsibility and to encourage its wider adoption.

The pace of establishment of the FMC system in Serbia

The status of the organizational establishment of the FMC system, which is the initial step in the process, and includes the activities listed in the introductory part of this chapter, was observed in central and local level PFBs, which are reporting regularly. The overall average at the level of Serbia for the previous two years reveals an increase in key elements. Thus, the part of the organizational establishment of the system that entails the appointment of FMC managers and WG has recorded an 8.00% and 12.08 % increase, respectively. Similarly, the elements related to the implementation and development of FMC have also seen an increase, such as the adoption of an action plan (15.18%) and the adoption of a risk management strategy (11.07%). The number of organizations that have business process maps has grown by 14.97%. A significant increase was recorded in the compilation of the risk register (18.20%). The establishment of internal controls in accordance with the identified most significant risks also recorded a 7.81% growth. **Figure 1** illustrates the trends (growth rates) of the share of PFBs in which business process maps and risk registers were developed in the 2019–2020 period.

Figure 1. Trends (growth rates in %) of the share of PFBs that have mapped their business processes and drawn up risk registers in the 2019–2020 period



Analysing PFBs that regularly report on the state of the FMC system that started compiling a list of business processes with descriptions in 2019, we see that 26.11% of all PFBs (24.48% at central and 30.00% at local level) have mapped their business processes in 2020. At the central level, special efficiency was shown by the DBB group (33.33%) and other PFBs - without PEs (38.46%). In the IBB category, which has the weakest indicators in all aspects, a 28.36% share completed this activity. The process is somewhat slower in the PEs (20.00%), and especially in the NHIF funds users' group (15.15%) and in the ministries with constituent administrative bodies (7.69%). At the local level, PUCs stand out with 33.33%, while local self-government bodies in 23.53% of cases have completed the business mapping process. Of course, we need to take into account that the volume of work depends, first and foremost, on the specific conditions and characteristics of each individual organization.

Looking at the category of ministries with constituent administrative bodies, it is imperative that they raise the level of establishment of the FMC system in the coming period, especially considering that no significant progress was seen in the 2019–2020 period when it comes to the mapping of business process and development of risk registers. On the other hand, the 10.53% increase in the adoption of action plans for the development of the FMC system is encouraging.

Some progress can be expected given that a relatively high percentage of all PFBs use the FMC Manual (68.04%) when establishing the FMC system. It is noteworthy that the 2019-2020 period saw an 15.16% increase in this segment at the level of all PFBs.

2.1.4 Self-assessment – the COSO framework

The assessment of the degree to which the FMC system is established/implemented is based on the COSO internal control framework of 2013⁷. FMC should be seen as a dynamic and integrated system. The internal control systems and concrete solutions will inevitably differ depending on

⁷ Committee of Sponsoring Organizations of the Treadway Commission, “Internal Control – Integrated Framework”, May 2013.

the specificities, i.e., characteristics and requirements of the individual entities. In the next section of this paper, we will discuss the key results (based on the PFBs' self-assessment average scores listed in brackets) disaggregated by COSO framework questions, principles, and components, as well as by category of public funds beneficiaries listed in Section [1.2 Methodology of the Consolidated Annual Report](#). A detailed overview of the average scores is presented in the tables in [Annex 3 – Overview of average scores by COSO framework questions, principles and components, by PFB category](#).

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

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

a) *The organization's integrity and ethical values*, i.e., the level of commitment to integrity and ethical values demonstrated by the PFBs is, on the overall, satisfactory (3.94). The MSIO group has a significant advantage (4.89) relative to other PFB categories, which contributed to a slightly higher average score of PFBs at the central level relative to the PFBs at the local level (3.67), in other words, the organizations' integrity and ethical values are recognized as an important factor of development of the control environment. The lower overall score of the PFBs at the local level is a result of the lower scores of IBBs (3.41), and other PFBs (3.74).

A code of conduct is in place in most PFBs (4.33) it is clearly communicated (4.12), in other words, all stakeholders are acquainted with it, except in the case of indirect (3.45) and other PFBs at local level (3.63). Efforts are needed in these PFBs to further improve the procedures that guarantee awareness of all stakeholders about the existence and requirements of the code of conduct. Further efforts are also needed in developing and implementing procedures for monitoring deviations from standards defined in the code of conduct (average score for all PFBs is 3.64), except in the case of MSIO (that reported an average score of 5). Aside from MSIO, the ministries with constituent administrative bodies and PEs also distinguished themselves with scores above 4 in the implementation of measures to address non-compliance with the code, while the “other PFBs” group at the local level lags significantly behind in this segment as well.

The overall average score of 3.77 indicates that PFBs are not paying sufficient attention to issues related to conflict of interest. However, this issue is treated seriously and is normatively regulated in almost all key PFBs at the central level, (3.87), in particular in the MSIO (5), ministries with constituent bodies (4.44) and other DBBs (4.06), whereas the other PFBs – excluding PEs have a slightly lower average score (3.81). On the other hand, PFBs at central level, and other PFBs at local level, have defined clear rules with regard to whistleblowing (average scores above 4). There is some room for improvement when it comes to LSG DBBs and IBBs at local level (average scores 3.83 and 3.45, respectively).

It is also important that we highlight the scores indicative of the high level of awareness of executives in all entities, except IBBs at the central and local level, about the positive effects of risk management activities, internal control and internal audit. This is best exemplified by the MSIOs (average score 4.50), ministries with constituent administrative bodies (4.42) and PEs (4.22).

b) *Effective and independent oversight, i.e., the requirement for an independent, competent and effective oversight in place* by the management/supervisory board in PFBs, is applicable more to business companies and institutions than public sector entities. In this context, a high level of compliance with this principle is reported by MSIO and PEs (average scores of over 4.5 and 4.31 respectively), while the situation in users of NHIF funds is significantly less favourable (3.29 and 3.34).

c) *An organizational structure with defined authorities and responsibilities* – on average, the organizational set-up, reporting lines, authorities and responsibilities were highly rated by all categories of PFBs (4.19). In this segment too, the MSIO group distinguished itself with a high score (4.8), while the high score awarded to this principle at the local level is a result of the high score of other PFBs (4.38).

The biggest share of PFBs provided detailed descriptions of tasks, authorities and responsibilities of individual positions (4.79), and they also regularly adopt annual work plans (4.64). Good examples in these segments are evident both at central and local level.

When it comes to the individual establishment of appropriate internal and external reporting lines, both the central (3.94) and local (3.76) levels reported lower average scores. Also, the impression is that the importance of complying with the obligation to regularly report on the FMC and IA system is not sufficiently recognized (overall average score 3.17). In this segment, PFBs should follow the positive examples of the MSIO group (average score 5), as well as of the PEs, and ministries with constituent administrative bodies (3.94 and 3.95, respectively).

d) *Effective management of human resources* – The overall average score of management of and commitment to the development of human resources capacities in PFBs stood at 3.88 so there is room for improvement in this domain. PFBs (especially at central level) have in most cases defined their personnel policy (MSIOs are an exception with an average score of 3) and established control mechanisms in the process of recruiting new employees. We should highlight the positive example of PFBs, specifically ministries with constituent administrative bodies, as well as other DBBs at central level, which have adopted a personnel policy (4.33 and 4.54, respectively). Nevertheless, we need to emphasize that there is scope for significant improvement, especially when it comes to investing in further professional development. PFBs at the central level, unlike PFBs at the local level, have a largely plan-driven approach to human resource development (at central level average scores were over 4.00, whereas at local level they stood around 3.50). Also, PFBs provide periodical trainings to educate employees about their duties and competencies related to internal control (the overall average score is 3.01). To illustrate, ministries with constituent administrative bodies reported an average score of 3.51. Only organizations from the categories of MSIOs and PEs have reached a slightly better level in this domain (4.00 and 3.78, respectively). On the other hand, the example of IBBs, both at central and local level, with scores lower than 3.00, best illustrates the correlation between the level of competencies and performance in the field of internal control. The level of performance is also reflected in the high turnover of employees mentioned in the qualitative analysis⁸ which reveals that most PFBs are encountering challenges with regard to the personnel structure (lack of qualified staff, high staff turnover, understaffing, etc.).

⁸ Please refer to [2.1.7 FMC from the perspective of PFBs: analysis of open issues](#)

The overall average score of the required knowledge and skills for the individual positions is high (4.71), which indicates that there is a sound basis for achieving the set targets. That said, overall, the competency monitoring system is not at a satisfactory level (overall average score – 3.38). PEs at central level and IBBs at local level particularly lag behind in this area, (with average scores of 2.89 and 2.47, respectively).

e) *Individual accountability of employees for fulfilling tasks* – The setting up of a system of individual accountability for the performance of internal control tasks is, overall, relatively low (3.41). A breakdown by category of PFB reveals that ministries with constituent administrative bodies, other direct budget beneficiaries, as well as MSIOs have established a satisfactory accountability system in the internal control domain. However, users of NHIF funds, PEs and “Other PFBs” (excluding PEs) as well as indirect budget beneficiaries at central and local level should show greater commitment to this segment.

Having effective performance assessment systems in place and employee incentives were rated with an average score below 3.25. It must be noted that without setting clear criteria and indicators and introducing performance and conduct-related reward and punishment mechanisms, the internal control system cannot become fully sustainable. The IBB category at the central and local level (with average scores of 3.22 and 2.62, respectively), and local authorities (which rated motivational mechanisms with 2.81), with these ratings show awareness of the need to improve this domain.

Also, primarily PFBs at the local level, IBBs at central level as well as users of NHIF funds, should ensure a higher level of monitoring and redistribution of excessive workload of employees, to prevent not only potential negative effects on performance, but also “taking shortcuts” and avoidance of controls by employees. On the other hand, the effectiveness of the managerial accountability system in PFBs at the central level also leaves room for further improvement, considering the average scores at central and local level (3.70 and 3.75, respectively).

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

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

a) The overall average score of 3.97 suggests that PFBs largely meet the requirement related to formulating clear objectives, which is the basis for identifying and analysing associated risks. PFBs at the central level define and adopt operational objectives. Operational and strategic objectives are related, and the objectives themselves are specific, measurable, attainable, realistic and time bound (average scores above 4). MSIOs and ministries with constituent administrative bodies at central level particularly distinguished themselves in this segment.

On the other hand, DBBs at the local level should invest additional efforts, especially when it comes to the connection between strategic and operational objectives and the application of the SMART⁹ principle in defining the objectives (3.67 and 3.72, respectively).

Similar results were achieved in the segment of internal communication of strategic goals and operational objectives, which means that both staff and management are familiar with the objectives of the organization (total overall score of 3.91). The decline in the average overall score is a result of the decline in the scores of IBBs at the central and local level, as well as of the increase in the number of PFBs from both groups included in the annual reporting.

It is encouraging that revenues and expenditures are highly aligned with the defined objectives (overall average score 4.55), which may indicate that the process of planning funds is set up in line with the goals of the organizations. The overall set of goals of the organizations is largely aligned with the relevant laws and regulations (overall average score 4.46). The management of PFBs at the central level, as well as of the group of “other PFBs” at the local level, define external reporting objectives which are in line not only with statutory requirements, but also with the requirements of relevant external organizations. That said, local government bodies and services (DBBs) need to further improve this aspect (average score 3.76).

b) We also found inadequate compliance with the principle related to risk identification and analysis, which is one of the most serious weaknesses identified in internal control systems (overall average score 3.01). Only MSIOs and PEs reported average scores above 4.00, followed by ministries with constituent administrative bodies with a slightly lower average score (3.86). Risk registers are not being updated regularly (overall average score 2.75), except in the case of MSIOs (4.75). Slightly better scores were reported by ministries with constituent administrative bodies (54.55%), PEs (55.56%) and MSIOs (100%), as well as LSGs (68.42%).

In accordance with the results of the qualitative analysis, the implementation of risk management tools and their regular updating are considered by employees as an additional workload. For this reason, resources and time are often not allocated for the implementation of these activities, and the data obtained from the PFBs on this issue are not surprising. When considering only PFBs that have risk registers, in connection with the updating of control activities and risk registers, the average score at the level of all PFBs is 4.03, i.e., PFBs that keep a risk register are regularly updating it. In this context, the category of ministries with constituent administrative bodies reported an average score of 4.57, while LSGs and IBBs at the local level (with scores of 3.6 and 3.87, respectively) should consider the importance of changes in internal and external circumstances and manage risks accordingly.

The process of identifying risks related to key business processes and risks that could affect the achievement of specific objectives, has not been established to a satisfactory extent by PFBs (overall average scores of 3.01 and 2.99, respectively). Risk assessment, with an overall average score of 3.05, is another aspect that needs to be improved in all groups of PFBs, except MSIOs, which reported an average score of 5.00. Data reveal that risks are not communicated or reported to a sufficient extent (2.93). Also, risks are not being adequately addressed at management meetings (3.20), this is also confirmed by the unsatisfactory scores related to decisions made to ensure risk response (3.08). In the segments mentioned herein, slightly higher scores were reported only by MSIOs, ministries with constituent administrative bodies, and PEs.

⁹ *SMART* is an abbreviation (acronym) that stands for “specific, measurable, attainable, realistic and time bound”.

c) When it comes to the requirement for the mandatory assessment of the potential for fraud and corruption as a risk to the achievement of set objectives, efforts are being invested by PFBs to improve this requirement, but they are scant (overall average score 3.17). This issue was approached more seriously by MSIOs (average scores exceed 4.75), followed by ministries with constituent administrative bodies with slightly lower scores (3.77).

d) The *change management* principle involves reviewing and assessing changes in the external environment (regulatory, market, material) as well as internal changes (operational, personnel-related, organizational). Change management as a risk management principle, is still in the development stage. Mechanisms for identifying and responding to the risks inherent in internal and external changes have yet to be fully recognized as an important factor for the achievement of the organization's goals (overall average score 2.98). In this segment, significant results were achieved only by PFBs from the categories of MSIOs (4.50), PEs (3.75), "other DBBs at the central level" (3.71) and ministries (3.49).

A risk management strategy was adopted by 37.74% of PFBs. This result was to be expected in view of the large number of IBBs at central level, mainly consisting of schools, that have sent in their annual reports. The groups that distinguished themselves as a positive example are MSIOs (100%), local government bodies and services (79.53%) and "other PFBs at the local level" (66.38%). It is interesting that, on these issues, the overall indicators at the central level are below the scores at the local level, which can be explained by the poor results of a large number of IBBs at the central level (primarily schools and social welfare centres).

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

a) When analysing the principle of defining appropriate control activities to reduce risk, we should bear in mind that the majority of PFBs that regularly submit their annual reports has already completed the first phase, i.e., the cycle of initial establishment of the FMC system. It is therefore expected that the average score of this element is slightly higher than the previous one.

In addition to IBBs, PFBs have established a system of selection and development of risk reduction control activities in most parts of their organizations. In particular, MSIOs (4.77), ministries with constituent administrative bodies (4.14) and other PFBs at the central level (4.03) distinguished themselves in this respect. PFBs have largely prepared detailed descriptions of business processes and established control mechanisms. On the other hand, (with the exception of MSIOs), written procedures of IBBs, PEs and other PFBs at the central level fail to adequately address the risks associated with specific activities, i.e., they do not describe in detail all control activities to a satisfactory extent (average scores are below 4).

Adequate segregation of duties is provided for in the majority of PFBs (ministries with constituent administrative bodies – 4.37, other DBBs – 4.07, MSIOs – 4.75, local government bodies and services – 4.05). Predictably, there are issues with small PFBs, primarily in the IBB category, where this condition cannot be met due to the fact that they have fewer employees. In such cases, additional mechanisms should be implemented, most often in the form of enhanced supervision/oversight. However, the scores show that IBBs, both at the central and local level, have not responded properly to the inherent impossibility of segregating duties, i.e., it is doubtful whether they are able to compensate for the lack of mechanisms that ensure segregation of duties with enhanced control (average scores 2.92 and 3.20).

Key PFBs at the central level have defined rules and procedures that ensure information security (the scores range from 3.79 in IBBs to 5 in MSIOs), while the range of scores at the local level is slightly lower (3.59 for IBBs and 4.02 in “other PFBs”). If we analyse the scores restrictively, i.e., under the assumption that only authorized persons have access to total resources, the total average score of 4.30 at the central level, (MSIOs 5.00, ministries with constituent administrative bodies 4.63, other PFBs - excluding PEs 4.67), and a score above 4 at the local level suggest that a high degree of information security is in place.

b) The principle of selecting and developing control activities in the field of IT infrastructure. The analysis of control activities in the field of IT infrastructure indicates the need to invest additional efforts to improve the IT infrastructure in certain groups of PFBs (the overall average score is 3.64). At the central level, the largest number of MSIOs and PEs have established control mechanisms in the field of procurement, development and maintenance of IT systems, although the average score was negatively affected by the scores of IBBs (schools), so that the average score at the central level is 3.38. Overall, users of NHIF funds, the remaining DBBs, as well as ministries with constituent administrative bodies should improve this segment (3.81, 3.50 and 3.88, respectively). At the local level, the situation is slightly more unfavourable (the average score is around 3.35), hence, they also need to improve their IT infrastructure.

Looking at PFBs overall, their degree of security of IT systems is high, since there are appropriate procedures and rules in place, especially in the groups of PFBs at the central level, with MSIOs (5), PEs (4.47), ministries with constituent administrative bodies (4.37) and users of NHIF funds (4.37) at the forefront.

c) The principle of implementing control activities through policies and procedures. Individual PFB reports suggest that insufficient action is being taken to address the identified weaknesses of the internal control system (3.39). MSIOs, ministries with constituent administrative bodies, PEs and other PFBs (excluding PEs) at the central level reported better scores in this segment (4 and higher). Local authorities, as well as other PFBs at the local level, reported average scores of around 3.5, indicating the need to improve mechanisms for eliminating identified weaknesses in the internal control system through training and/or other forms of staff education.

The situation with activities aimed at preserving and improving the functionality and overall relevance of control activities' policies and procedures is particularly unfavourable (the overall average score is 3.23). Only the categories of MSIOs, to some extent “other PFBs” (excluding PEs) and ministries with constituent administrative bodies meet the requirement to perform periodic reviews of this system (4.50 and 3.94 and 3.91, respectively).

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

a) Based on the data obtained from the submitted annual reports, in accordance with the principle related to obtaining or generating and using relevant and high-quality information, we can conclude that PFBs have a fairly good information base for the functioning of the FMC system. The overall average score of 3.84 suggests that PFBs have access to and use relevant and high-quality information. Most entities, and especially at the central level (where the leaders are MSIOs with an average score of 4.75, other PFBs - excluding Pes, and PEs with average scores of 4.29 and 4.26, respectively) have clearly defined individual information needs. Information and communication systems provide for the monitoring of the achievement of objectives and oversight, especially at the central level, where except for IBBs, all scores are above 4.00 (ranging from 4.06 for other DBBs to 4.75 for MSIOs), which indicates that all employees have access to the information they need to perform individual tasks at both central and local levels (overall score 4.15). In the above segments, all PFBs at the central level have very high scores (in most cases, over 4.30), while the results at the local level are slightly lower (around 4), but still satisfactory.

b) The principle related to internal communication in PFBs is also at highly rated (the overall average score is 4.38). Managers of most PFBs receive timely and complete information necessary to perform tasks within their competence (scores over 4.40). In PFBs that have a supervisory body, there is regular communication between the board of directors/supervisory board and management. At the central level, MSIOs, PEs and beneficiaries of NHIF funds have extremely high scores (5.00, 4.71 and 4.52, respectively). On this issue, other public funds beneficiaries at the local level (the majority of these are PUCs) reported an average score of 4.58.

c) When it comes to the external communication principle, the overall average score of 3.97 leads to the conclusion that all information from external sources relevant to the functioning of the internal control system is largely available. A high degree of transparency is provided in relation to external actors (overall average score 4.41). On the other hand, the high overall average score (3.97) when it comes to the level to which management has access to and considers external information on trends and change of circumstances that may significantly affect the achievement of objectives requires additional analysis. This result is somewhat in contradiction with the low scores on the issue of mechanisms for identifying and responding to risks of internal and external changes, which leads us to conclude that changes are merely reviewed without a systematic approach to change management through the risk assessment system. Having a risk management system is an essential condition for the fulfilment of other principles of the COSO framework (Principle 4 is connected to Risk Management). Furthermore, the situation is similar at both central and local level when it comes to obtaining and reviewing information from external sources.

All PFBs at the central level, with the exception of IBBs, are analysing existing external communication procedures and methods to a large extent (average scores are above 4.00). There is room for improvement at the local level, given that the average score of 3.54 signals a certain degree of inertia. That said, the absence of any drastic deviations in the average scores at both levels is encouraging.

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

The principles of this element require that organizations a) design and continuously and/or periodically perform evaluations and b) promptly analyse and communicate identified weaknesses, and subsequently monitor the implementation of corrective action.

a) The scores indicate that the activities related to the assessment of the state and functioning of the internal control system in PFBs are still not sufficiently pervasive in public sector institutions (overall average score 3.35). The fact remains that smaller organizations often do not have adequate capacities to implement formal monitoring mechanisms, such as internal and external audits. This is confirmed by the average scores related to having a reporting structure in place to ensure the independence of internal audit (overall average score of 2.46). In this segment, the category of ministries, MSIOs, PEs and ministries reported high scores (over 3.6), while IBBs lag significantly behind (2.22 at central 2.52 at local level).

The PFB managements did not fully establish a system for regularly reporting on the FMC system (the overall average score is 3.15), except in the case of MSIOs, ministries and PEs at central level which reported higher scores in this segment in this reporting period – the average score at central level is lower than the average score at local level (3.08 and 3.32, respectively). The decline in the average overall score is a consequence of the lower scores of IBBs at the central and local level, and the significant increase in the number of PFBs from this group that submitted their annual reports. On the other hand, most PFBs regularly monitor the achievement of objectives (4.03). The causes of possible non-fulfilment of objectives are also analysed to a good extent in most PFBs (3.78), with somewhat lower scores reported in the local authorities' group (3.58).

b) The overall situation in the sphere of analysing and communicating perceived weaknesses, i.e., overseeing the course of corrective action, is unsatisfactory (overall average score 3.10). A random glance reveals that only MSIOs (4.64), and to some extent ministries with constituent administrative bodies (3.88) and PEs (3.87) are investing significantly in this FMC aspect. That said, this area needs to be studied more thoroughly by individual issue.

An analysis of the degree of acceptance and implementation of internal auditors' recommendations definitely reveals issues (the overall average score is 2.75). These scores were also influenced by the IBBs category, primarily at the central level, which has a significantly lower coverage rate by internal audit. Ministries with constituent administrative bodies, MSIOs and PEs, most of which have an established internal audit function, raise the overall level of standards in this segment (with average scores exceeding 3.6). On the other hand, the rate of implementation of external audit recommendations is significantly higher (overall average score 3.72). As regards the implementation of external audit recommendations, differences were observed in all categories of PFBs and are particularly prominent in the implementation of internal and external audit recommendations in local government bodies and services (average scores 3.05 and 4.58, respectively) and other PFBs at local level (2.81 and 4.54, respectively). These scores reveal an increase in the rate implementation of external audit recommendations. Similarly, a difference was noted in IBBs in the implementation of external audit recommendations at the central level (internal – 2.52 and external – 3.30). These data may indicate/lead us to the conclusion, among other things, that PFBs do not have a sufficiently developed awareness of the use of IA as a function that "adds value" to the organization.

In contrast, scores related to the monitoring of the implementation of internal/external audit recommendations and the availability of audit reports to stakeholders are high in most PFBs (more than 4.00), even at the local level (even in IBBs that are usually reporting lower than average scores in the self-assessment process).

None of the PFB categories, except for MSIOs, has fully established procedures to enable employees to inform the management about the identified weaknesses in the internal control system (overall average score 2.86). As the management of irregularities is a new area in the internal control system, its score is expectedly low in the IBBs and other PFBs at central level, also due to the increased number of PFBs that submitted their report for the observed reporting period.

The question related to the establishment of audit committees revealed that a relatively low percentage of PFBs has an audit committee (3.26%). PEs are the only category that has established these internal control advisory bodies to a large degree (their share accounts for 61.11%). However, it should be noted that the issue of establishing audit committees is not applicable in most PFBs.

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

We can conclude that key aspects of the control environment have been applied to a significant extent (integrity and ethical values, mission and vision as essential prerequisites, efficient organizational structure, as well as clear reporting lines). The control environment was the second-best rated element, with an overall average score of 3.83. If we set aside considerations related to the supervisory body, there is room for improvement in segments of FMC reporting, internal control training, staff performance management as well as in the staff remuneration segment. Looking at the scores by government level, we observe that almost all PFBs at the central level, except for IBBs, have laid adequate groundwork to ensure the required structure and discipline level (average scores exceed 4.00). In a positive sense, PEs stand out with an average score of 4.14, but some weaknesses are discernible, primarily at the local level (average scores lower than 4.00).

Without the commitment, support and the positive example of managers in the organization, setting the “tone at the top”, the successful implementation of the FMC system in all PFBs will be difficult. In addition, the scores in the field of integrity and ethical values should be given a prominent place, considering this principle is crucial for building the trust and reputation of the organization, both internally and externally.

There is room for improvement, specifically by continuously upgrading the knowledge and skills of the staff. In addition to improving staff competencies, this will help the organization adapt to changes in the environment more easily.

Ministries with constituent administrative bodies and other DBBs at the central level demonstrate a clear commitment to establishing a system of individual accountability.

However, it should be noted that PFB reports indicate that the risk of losing qualified staff is high, and that PFBs should ensure an appropriate level of staff competencies to achieve the objectives of the organization.

In the sphere of risk management, the overall average score of 3.44 reveals that PFBs should definitely invest additional efforts, especially at the central level (average score 3.38). The scores suggest that, in addition to IBBs at the central and local level, local government bodies and services (DBBs) are not paying sufficient attention to the principle of identifying and analysing potential events that may adversely affect the achievement of objectives (average score 3.37). Also, most PFBs show poor results when it comes to updating the risk register. On the other hand, PFBs at the central level take this issue much more seriously, especially MSIOs (average score 4.75).

Bearing in mind that all of the organization's objectives (both strategic and operational) are affected by risks, in the form of unforeseen circumstances that can negatively impact the achievement of an organization's objectives and its performance, we can conclude that special attention must be devoted to risk management in the coming period. The average scores of different groups of PFBs indicate that risk management is the second weakest element of the COSO framework and that it needs to be further improved. Positive elements are evident in the segment of understanding the importance of defining goals, which is the basis for establishing a risk management system. That said, further improvement is needed in the other segments of risk management. In addition, the assessment of the potential for fraud and corruption as a risk to the achievement of objectives should be strengthened in all institutions that do not fall into the DBB category.

When it comes to the principle of defining and implementing control activities through policies and procedures, most PFBs at the central level are achieving relatively good results. The MSIO category is in the lead (with an average score of 4.67), and other PFBs (without PEs) show relatively good results with average scores slightly above 4. At the local level, the DBB category has an average score of 3.52. The relatively modest result for this element of the FMC system (3.50) is, primarily, an indicator of the self-assessment of IBBs (whose average score is around 3.35).

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

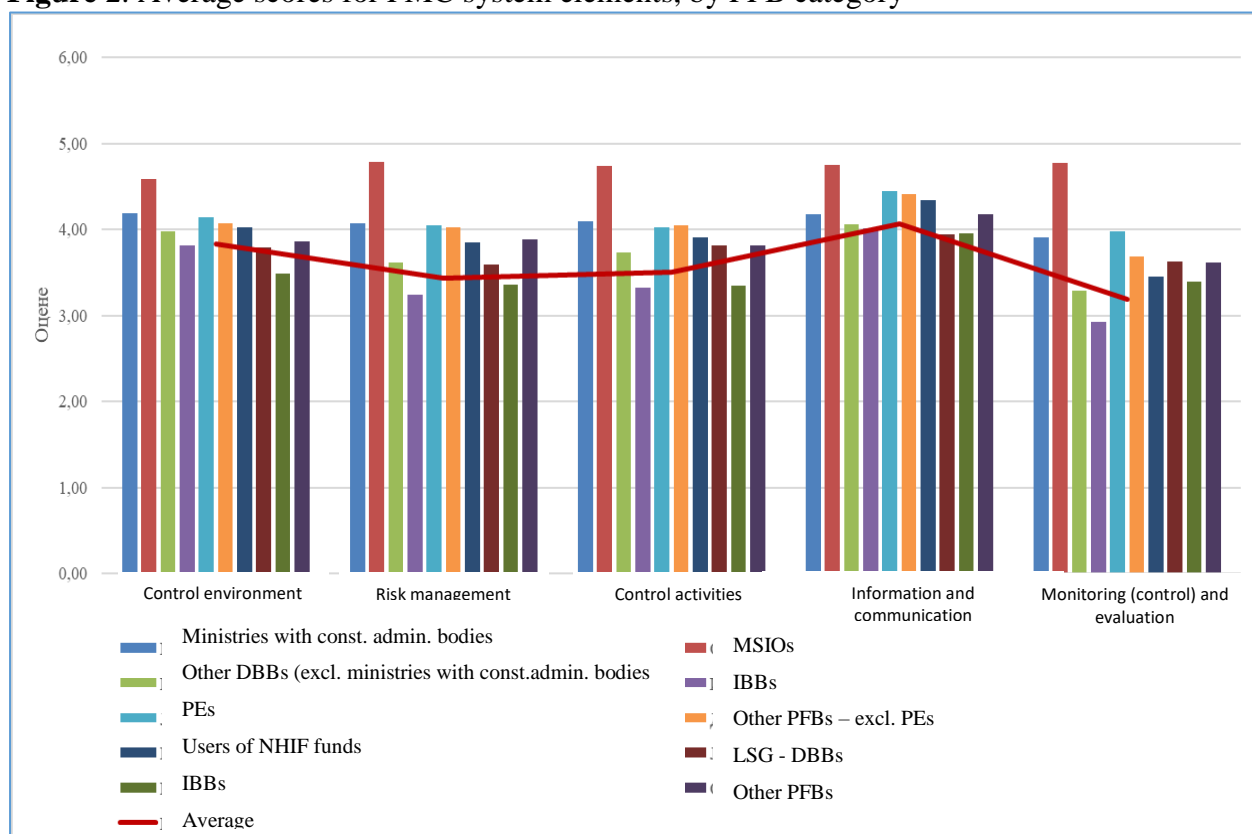
There is room for progress in the areas of defining control activities, as well as in the area of project planning of IT infrastructure and perception of IT security. We can conclude that, although some control mechanisms are already embedded into the business processes, in practice, PFBs are not regularly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

Information and communication systems is the best-rated FMC segment, with an overall average score of 4.07. All categories of PFBs at the central level, including IBBs, report average scores of around 4 or above. At the local level, the situation is slightly more unfavourable with IBBs and LSGs reporting scores of 3.96 and 3.94, respectively. The leaders at the central level are MSIOs (4.75), PEs (4.45) and other PFBs (without PEs) with an average score of 4.41. At the local level, the highest average score (4.18) was reported by the "other PFBs" category, which mostly consists of PUCs. Reporting and access to information is of great importance and is one of the indispensable elements for the application of the concept of managerial accountability together

with the segment of clearly assigned powers and responsibilities from the control activities segment.

Monitoring and evaluation of the FMC system is the worst-rated aspect (an overall average score of 3.19) with the highest range of average scores recorded in this segment. Entities from the MSIO (4.77), and PE (3.98) categories deserve good scores, followed by “other PFBs” (excluding PEs) at the central level (3.68). Solid scores in this component were recorded only in the segment of monitoring the achievement of objectives and analysing the causes of their non-fulfilment. Further progress can be expected with the implementation of the irregularity management process, which was introduced in the regulatory and methodological framework in late 2019 and included in the PFBs’ reports for the first time. Full implementation can be expected in the forthcoming period.¹⁰

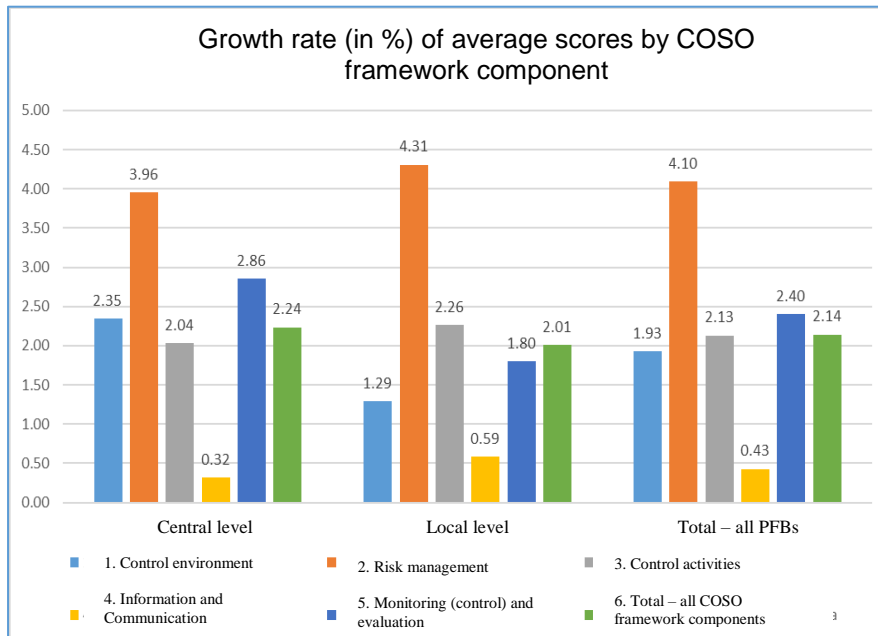
Figure 2. Average scores for FMC system elements, by PFB category



The analysis of results by level and category of PFB shows that PFBs at the central level in most cases performed better compared to local level PFBs. The categories of MSIO, PEs, as well as ministries with constituent administrative bodies, and “other DBBs” at the central level, are generally at the forefront when it comes to assessing the state of the FMC system. Looking at the situation at the local level, the performance of administrative bodies (DBBs) and other PFBs (PUCs) are mostly mutually comparable. The scores of IBBs, both at the central and local level, are unsatisfactory in all components. This outcome is not surprising, given that only a small share of PFBs in these categories has appointed managers responsible for establishing and developing the FMC system, or WGs tasked with setting up, updating and developing the FMC system (at central level about 45% have appointed managers and 41% have established WGs; at local level 46% have appointed managers, and just over 43% have established WGs). Consequently, and in accordance with the presented estimates, a low rate of participation in the development and

¹⁰ For detailed information on irregularities, please refer to [2.1.8 Management of Irregularities](#)

implementation of the action plan for the FMC system is expected (approximately 22% of IBBs at the central level and 37% at the local level). Such results can be attributed to the lack of confidence of the IBB management in the added value of the FMC system, i.e., that risk management, control activities and IA will significantly contribute to the achievement of PFB objectives (3.69 at central level and 3.79 at local level). The following chart shows the growth rates (in %) of average scores by COSO framework component for the 2019–2020 period.



The overall average score for all components of the FMC system was by 2.14% higher in 2020 relative to 2019. The overall average score of the risk management component recorded the highest growth rate (4.10%), and the information and communication COSO component the lowest growth rate (0.43%), which is understandable, given the high baseline value. The control environment score

recorded a 1.93% increase, and the monitoring (supervision) and evaluation component score increased by 2.40% (the growth rate for monitoring and control is almost the same as in the previous year). The overall average score for all components of the COSO framework of the PFBs at the central level recorded a slightly higher annual growth rate (2.24%) compared to the overall average score of entities at the local level (2.01%). Among the individual categories of PFBs at the central level, “other PFBs” (excluding PEs) and IBBs recorded the highest annual growth rate of average scores (2.91% and 2.73%, respectively). At the local level, IBBs and “other PFBs” are making the most rapid progress (3.52% and 2.57%, respectively).

2.1.6 Statement on Internal Control

Article 20 of the FMC Rulebook prescribes that the PFB manager shall provide a Statement on Internal Control¹¹ as an integral part of the annual report on the FMC system (hereinafter: the Statement). Pursuant to the FMC Rulebook, PFC are required to submit the Statement starting from January 1, 2021.

The Statement is signed by the PFB manager, based on the self-assessment from the Internal Control Self-Assessment Questionnaire which is an integral part of the Annual Report on the FMC System.

In this Statement, the PFB manager confirms that he/she has obtained reasonable assurance that the FMC system in the organization he/she manages is compliant with international internal

¹¹ Please refer to [Annes 6 – Statement on Internal Control](#)

control standards, that the internal control system is efficient and effective, and that the organization is managed in accordance with good governance principles.

The analysis established that most PFB managers signed the original version of the Statement, while a small share (less than 5%) amended the text of the Statement to some extent before signing it. The reason provided by most of the latter for making changes to the text of the Statement is that they have not established or are in the process of establishing the FMC system, so that they cannot declare that the organization is managed according to the principles of good governance and COSO principles.

As three new ministries were established in 2020, pursuant to the Law on Ministries (RS Official Gazette No. 128/18) and the Decision on the Election of the Government of Serbia (RS Official Gazette No. 128/2020) of October 28, 2020, neither the goals nor the indicators that would determine the adequacy and functioning of the FMC system have been set in these ministries yet.

2.1.7 FMC from the perspective of PFBs

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

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

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

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

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

*

Most PFBs stated that they encountered major challenges in their functioning in the conditions caused by the pandemic¹², not only in the management and communication area, but also in the operational coordination of services with a reduced availability of staff for the implementation of daily business because of sick leave, and the need to adjust working arrangements, limiting the number of staff to prevent contact and the spread of the virus. Due to the increase of online exchange of information and communication, PFBs stressed the need to establish and develop information systems that include key business processes, enable regular operational activities, increased efficiency, smooth operation and business continuity, while supporting control functions, as well as the need to raise technical capacities and staff digital literacy. The pandemic has had a negative impact on the activity of PFBs, and its direct consequence is reflected in difficulties in the implementation of various activity segments, and the inability to achieve the expected results, which is especially visible in some departments.

2.1.8 Management of irregularities

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

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

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

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

The annual report on the FMC system for 2020 was expanded and improved in a number of issues, including several issues in the irregularity management segment.

Guidelines for the management of irregularities prepared by the CHU with the help of the Twinning Project have been available since June 2020 and have been used by 22.27% of the PFBs.

¹² For detailed information about the functioning of the internal control system, please refer to Section [2.2.10 The functioning of the Internal Control System in Conditions of Pandemic](#)

Most PFBs (93.21%) reported no suspicion of irregularities in 2020, while 6.79% of PFBs reported that they had confirmed irregularities, of which 71.24% were resolved internally, 0.67% were resolved externally, i.e., outside the PFB, and 28.09% both internally and externally.

2.1.9 FMC system quality reviews

The establishment of the FMC system quality review function at PFBs began in 2018 and since has been a regular activity of the CHU since 2019. Three FMC quality reviews were planned in selected PFBs in 2020. However, due to the adverse impact of the pandemic, the limited capacity of the CHU, and the complexity of this activity, only two FMC quality reviews were performed, specifically, in the Ministry of Agriculture, Forestry and Water Management – Forest Directorate and the Ministry of Construction, Transport and Infrastructure – Waterways Directorate.

These two PFBs are state administration bodies with a relatively similar organizational structure, number of staff and way of functioning (they perform administrative tasks – record-keeping, issuing requirements, opinions and permits, and other technical tasks within their purview). Both PFBs, as state administration bodies, are responsible for the oversight of public interest assets, and the Forest Directorate also performs inspections. In addition, the different remit of these PFBs is another aspect that allows comparing the state of two FMC systems in the same time period.

The purpose of the quality review of the FMC system is to assess the existing FMC system, evaluate and support the PFBs in meeting PIFC standards in the most appropriate and efficient manner. In a quality review, the approach is to assess the basic 5 COSO framework components and its 17 principles. In the process of reviewing the FMC quality, practical issues in its implementation are also identified, along with realistic deadlines for the establishment of FMC and similar.

Taking into account the individual results and conclusions reached in the FMC system quality reviews, the conclusion is that the current phase in the process of establishing the FMC system in both institutions is mostly at a satisfactory level. That said, parts of the system were identified that require the management to take action in order to further develop and improve the system. Certain weaknesses were identified, on the basis of which the CHU provided adequate recommendations for further improving the system. These recommendations were provided in individual quality review reports and the PFB managers agreed with them.

In both PFBs, weaknesses and shortcomings were observed in the segments of risk management, human resources management, so the CHU provided appropriate recommendations for the improvement of these segments. The implementation of the recommendations will be monitored through regular annual reporting on the FMC system.

We noted that the management in both PFBs had a very positive attitude towards sound financial management, as well as a high level of awareness of managerial accountability. The "tone at the top" of the organizations is clearly focused on achieving the organizations' objectives by raising the quality of internal controls.

Both PFBs have established all key attributes that define the conditions for the appropriate implementation of part of the control environment component, relating to a clear organizational structure, establishment of reporting lines, definition and assignment of competencies and responsibilities. That said, they should be updated in a timely manner and, where missing, documented through procedures. The differences observed in the control environment component

are reflected in the fact that the Forest Directorate should introduce the development of staffing plans and staff training plans into its regular practice, to frame a systematic approach to strengthening the professional capacity of its employees. Human resource management is particularly important, given that both institutions face challenges related to maintaining a stable number of existing key employees with narrowly specialized knowledge and to policies for attracting and retaining staff.

By implementing the activities envisaged in WG's FMC Action Plan for risk identification, analysis and formulation through the necessary documents, the Forest Directorate has built a solid foundation for the risk management process. This is not the case with the Waterways Directorate which failed to establish a WG, define an AP for the development of the system, and adopt a risk management strategy for the observed period. In order to improve its operational monitoring of the achievement of its strategic goals, and in this context the performance appraisal, it would be important for the Forest Directorate to complete the process of establishing a framework for the implementation and monitoring of strategic goals, both internally, as well as by external bodies. The Waterways Directorate, on the other hand, has a fully established national and international strategic basis.

The current phase of the control activity component in the Forest Directorate leaves ample room for the improvement of the establishment and development of the FMC system, primarily through the implementation of further activities related to documenting and defining the system. On the other hand, the Waterways Directorate has established this component at a satisfactory level, bearing in mind that controls in the field of navigation are mostly "embedded" in operational processes and daily activities of employees, as well as through relevant procedures and internal acts in which responsibilities are specifically listed and defined.

The information and communication component, in both PFBs, is for the most part established at a satisfactory level, but the Forestry Directorate needs to adopt policies and procedures in the field of IT and information security. The Waterways Directorate is an example of good practice, as it uses the River Information System (RIS) in the performance of its technical tasks.

The quality review activity showed that the observed PFBs have established a monitoring and control component which is continuously implemented through regular annual self-assessments, i.e., reporting to the CHU, with the Forest Directorate subject to both internal and external audits.

2.2 Internal audit

2.2.1 Internal audit coverage rate

The form of the annual report on performed audits and internal audit activities consists of a general section on the beneficiaries, the IA units and internal auditors, information on implemented standards and IA methodology, proposals for the development of the IA system and an overview of performed audits and the number of recommendations disaggregated by type, as well as the number of performed consulting engagements. For 2020, additional six questions were added to the form of the annual report¹³. These questions are related to the recommendations from the CAR for the previous year and the functioning of the IA in conditions of the pandemic.

¹³ The Questionnaire is in [Annex 5 – Overview of PFBs that have established the internal audit function](#)

According to processed data, a total of 1,328 PFBs submitted their Annual Report on audits and internal audit activities for 2020.

This section of the report provides an overview of the IA coverage rate, analysed in the most important PFBs¹⁴, in terms of the size of their budget and the number of employees. The coverage rate is primarily analysed as the share of budget covered by IA in a given PFB category. In addition, the official PFB List of the Treasury Administration, in some cases includes, in addition to organizational units, the accounts of individual public sector bodies and organizations, hence, the analysis of IA coverage cannot be based solely on the number of PFBs included on this list.

The criterion used for the assessment of coverage is the so-called functional IA, which entails that the PFB has produced at least one audit report in the reporting period.

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

IA coverage	Total number of PFBs by category	Number of PFBs with functional IA	% of PFBs with functional IA of the total number of PFBs	% coverage of the budget by functional IA, by PFB category	Number of PFBs that have a d IA unit with minimum three internal auditor positions filled	% of PFBs with staffed IA unit
Ministries with constituent admin. bodies	21	16	76%	93%	7 of 21 mandatory	33%
Other direct budget beneficiaries at central level	85	18	21%		3 of 9 mandatory	33%
MSIO	4	4	100%	100%	3 of 3 mandatory	100%
AP Vojvodina	1	1	100%	100%	1 of 1 mandatory	100%
Cities¹⁵	28	17	61%	86%	6 of 28 mandatory	21%
Municipalities¹⁶	117	24	21%	26%	-	-
PEs at the central level	41	22	54%	84%	7 of 14 mandatory	50%
Total:	297	102	34%		27 of 76	36%

Direct budget beneficiaries at central level¹⁷ with a functional IA account for approximately 93% of total expenditures and outlays of the budgets of direct budget beneficiaries at central level for 2020. The aforesaid budget also includes the budgets of indirect beneficiaries that are within the remit of direct budget beneficiaries at the central level of government. Three new ministries were

¹⁴ For the purposes of this report, in the presentation of the status of IA in PFBs, the “most important” institutions refers to the group of direct budget beneficiaries at central level, MSIOs, LSGs and PEs.

¹⁵ Without the LSGs in AP KiM.

¹⁶ *Ibid.*

¹⁷ DBBs at central level: ministries, administrations, judiciary bodies, budget funds, directorates, offices, services and others.

established pursuant to the Law on Ministries (RS Official Gazette No 128 of 26 October 2020): the Ministry of Human and Minority Rights and Social Dialogue, the Ministry for Family Welfare and Demography, and the Ministry of Rural Welfare, and this is the reason why the IA function is not yet functionally established in the newly formed ministries. Furthermore, as in the previous reporting period, the Ministry of Foreign Affairs and the Ministry of Environmental Protection do still do not have a functional IA.

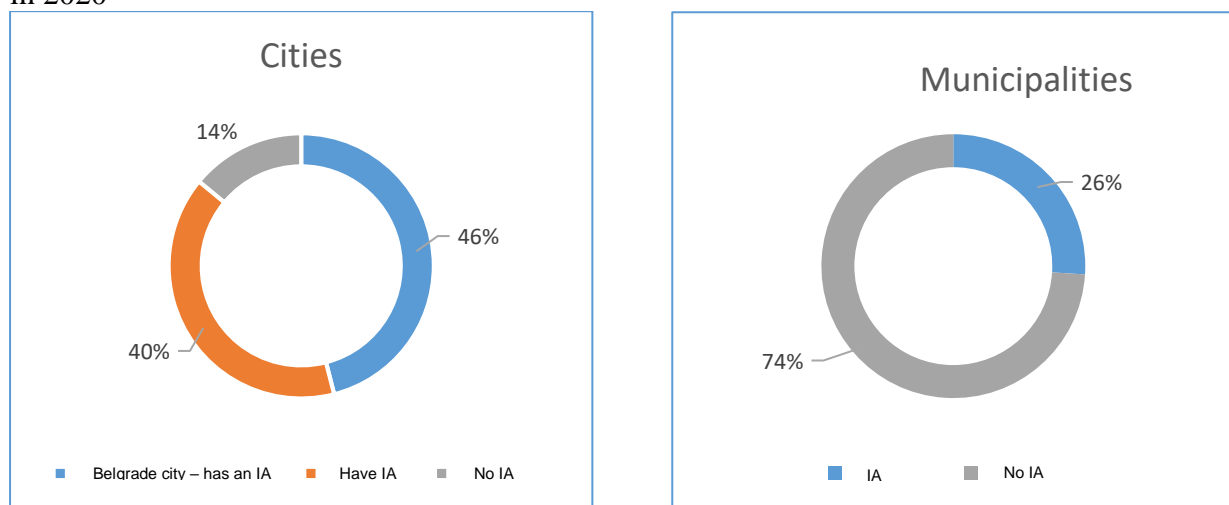
As regards the MSIOs and their budgets, 100% of their budget is covered by functional IA, i.e., internal audit is established and active in all four PFBs in this group.

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

When it comes to local government units, consisting of cities and municipalities, the conclusion is that the situation in cities is significantly better than in municipalities. Seventeen of a total of 28 cities has a functional IA¹⁸, which makes 86% of the total expenditures of this group in 2020. The situation is not as good in the case of municipalities, as only 24 municipalities, covering together 26% of total budget expenditures of this group in 2020. A slight increase in budget coverage can be observed in the municipalities' group. The cities of Šabac, Zaječar, Sombor and Kraljevo did not submit their Annual Reports for 2020.

The figures below show the coverage of budget expenditures in 2020 by the IA function

Figures 3 and 4 Coverage of budget expenditures of cities and municipalities by the IA function in 2020



¹⁸Excluding LSGs in AP KiM.

Of a total of 41 PEs and capital companies at central level in Serbia covered by this analysis engaging in an activity of public interest subject to the Law on Public Enterprises, 22 has a functional IA, which accounts for 54% of the total number in this group. These entities are the largest ones in the sample, both in terms of their revenues and the number of employees, accordingly, budget coverage for this group of entities stood at 84% in 2020, as presented in **Figure 5**.

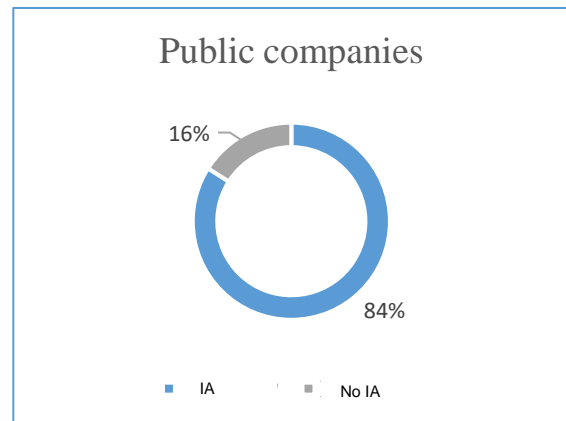


Figure 5. Coverage of total revenues of PEs by IA in 2020

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

By analysing the presented data, the following can be concluded:

- The MSIO category and the APV have the required number of internal auditors;
- Only a small share of ministries, which are required to have a fully staffed internal audit unit, have met this requirements, specifically, seven of them, i.e., 33% of ministries. This year, too, the number of internal auditors in this category has stagnated compared to the previous two years. As many as five ministries do not have a single internal auditor, among which the new ministries established at the end of the year and two ministries that have not had internal auditors on their staff in the past three years;
- According to the annual reports received, 61% of cities have a functional IA. Given that, pursuant to Article 6(1) of the IA Rulebook, cities are required to have a fully staffed IA unit, only 21% of cities has complied with this requirement, same as last year;
- In the category of PEs at central level, 14 have over 250 employees and the obligation to fully staff their IA unit, however, this requirement was met by only 7 of them (50% of the group that is required to have a fully staffed IA unit);
- Offices, other DBBs, and municipalities, do not have a satisfactory coverage by functional IA.

2.2.2 Internal audit function

A total of 1,328 PFBs submitted their 2020 annual report to the CHU. Of this number, 982 annual reports were either sent in by PFBs in which the IA function was not established or were incomplete. A total of 346 annual reports were processed and analysed. According to the submitted reports, 324 PFBs established the IA function only normatively, which means that they have established IA in accordance with one of the modalities listed under Article 3 of the IA Rulebook, by including internal auditor positions in their internal staffing plan, or by stipulating an agreement, as prescribed in Article 3, item 2) and 3) of the IA Regulations. A total of 202 PFBs have established a functional IA, which means that their IAs have produced at least one audit report in the reporting period.

Figure 6 shows the number of submitted annual reports and established IA functions in PFBs. In 2020, the number of submitted IA reports recorded a significant 280% increase relative to 2019 when a decline was registered due to the pandemic. This confirms that significant results were achieved in raising the awareness of PFBs about the added value of establishing an IA function. An increase in the number of annual reports submitted was present in all categories of beneficiaries, most of all in the IBB category, both at central and local level, as well as among users of NHIF funds or healthcare facilities.

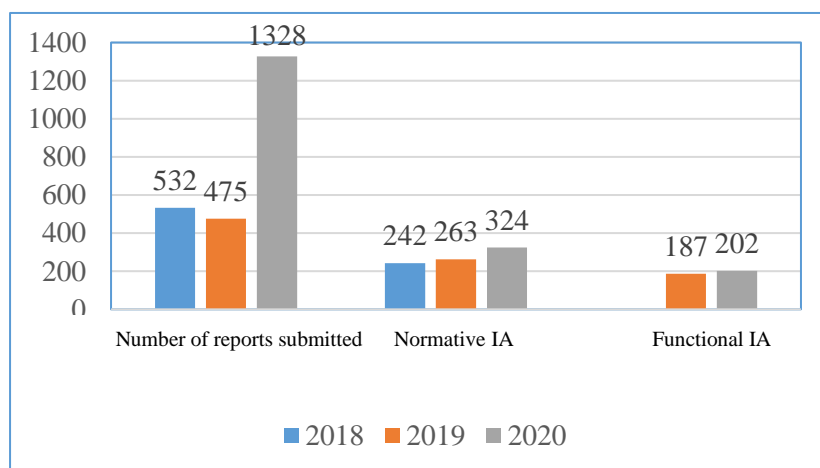


Figure 6. Number of reports submitted and number of PFBs with a normative and functional IA, by year

[Annex 4 – Overview of PFB that have established IA](#), provides a detailed overview of the number of beneficiaries by category of PFB with established IA.

Table 4. The number of PFBs in Serbia that submitted reports and established IA with systematized and filled internal auditor positions in 2020

PFBs	Reports submitted	Normative IA	Functional IA	Systematized IA positions	Filled positions
Central level	967	178	118	470	345
Local level	361	146	84	244	181
Total in Serbia	1328	324	202	714	526

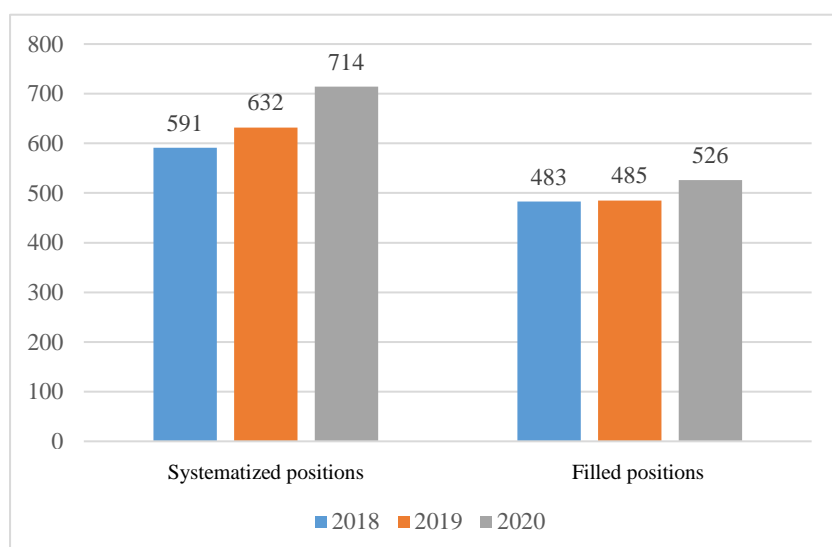


Figure 7 Number of systematized and filled IA positions in PFBs in the 2018-2020 period

Figures 6 and 7 also show the total number of established IA functions along with the number of systematized and filled IA positions in PFBs in 2018, 2019 and 2020. Based on these data, we can see that 324 PFBs have normatively established the IA function, which is a 23% increase in

2020 relative to the previous year. In addition, 202 PFBs have functionally established the IA, which is an 8% increase relative to 2019.

Also, we can conclude there has been a 13% increase in the number of systematized positions and an 8% increase in the number of filled position in 2020 compared to 2019. Overall, we have

witnessed a positive trend in the development of the IA function in the previous period, in all indicators. That said, we are also seeing a decline in the number of employed local internal auditors in the DBB category (cities and municipalities), the main cause being natural staff attrition. Detailed information is presented in [Annex 4 – Overview of PFBs that have established the IA function](#).

Generally, natural staff attrition is one of the main causes of the decline in the number of internal auditors in the public sector. These facts are also supported by the information in the Report¹⁹ of the Human Resources Management Service for 2019, which reveals that internal auditors are the oldest cohort of workers relative to all other fields of work in the public administration, where as many as 13.3% will have met the statutory requirements for retirement in 2021, a significantly higher share than in any of the other areas of work (twice higher than the first next job group).

Table 5. number of PFBs with normatively established internal audit and systematized and filled internal auditor positions in 2017, 2018 and 2019

PFBs	Number of PFBs with normative IA	Number of PFBs with functional IA	Systematized IA positions	Filled IA positions
Total in RS in 2018	242	-	591	483
Total in RS in 2019	263	187	632	485
Total in RS in 2020	324	202	714	526

As shown in **Tables 5 and 6**, according to the received reports, an internal audit unit is in place in 35% of the 324 public funds beneficiaries in which the internal audit function is normatively established, whereas in 56% one internal auditor position is envisaged in the staffing plan. In 3% of PFBs the IA function is established under an agreement with another PFB that has a functional IA unit and 6% of PFBs have made other arrangements (hiring individual contractors under an audit service agreement, audits performed by the holding company in the subsidiary company, agreements that were not approved by the CHU, establishing joint IA units and similar). It is evident that the dominant modality of establishing the IA function is by appointing one internal auditor, which reflects the fact that there is a large share of small PFBs in which no other modality would be rational. Also, the other modalities, i.e., signing an agreement envisaging the performance of internal audit by another PFB, or establishing a joint internal audit unit, are under-represented because the existing internal audit units are not running to full capacity, i.e., they are not fully staffed with internal auditors.

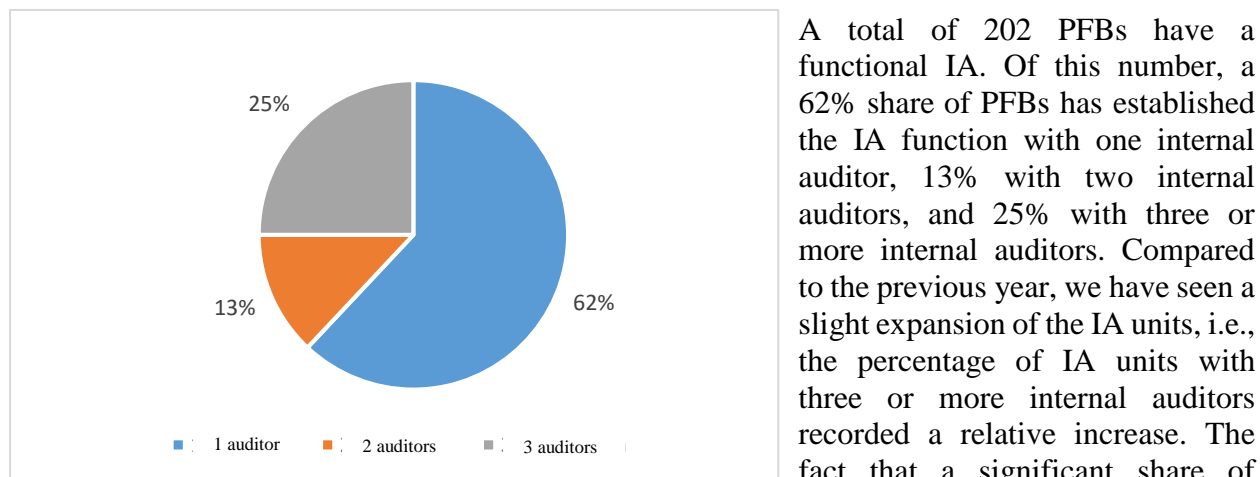
Table 6 - Number of PFBs with normatively established IAs, by IA setup in 2020

IA setup modality	Number of PFBs
IA unit	112
Agreement on the implementation of IA by another PFB	9
Internal auditor	182

¹⁹ Report of the Human Resources Management Service on the situation regarding the drain of personnel and proposal of measures for retention of staff and prevention of staff loss impact on the smooth operation of state administration bodies of September 2019 (p. 11).

Other (hiring internal auditors under a service contract; audits performed by the holding company in the subsidiary company; agreements that were not approved by the CHU, and similar)	21
Total:	324

Figure 8. Percentage of PFBs with established IA function, by number of auditors in 2020



A total of 202 PFBs have a functional IA. Of this number, a 62% share of PFBs has established the IA function with one internal auditor, 13% with two internal auditors, and 25% with three or more internal auditors. Compared to the previous year, we have seen a slight expansion of the IA units, i.e., the percentage of IA units with three or more internal auditors recorded a relative increase. The fact that a significant share of

functional internal audits have two or fewer internal auditors raises doubts as to whether internal auditing standards can be fully met.

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

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

Based on the annual reports submitted by PFBs we can see that only a negligible percentage of PFBs (3%) has a functional IA, and that internal auditors employed in these organizations perform unrelated tasks as well, as ordered by the PFB manager. This is neither in line with the IA Rulebook nor with IA standards, and confirms that the managers of these PFBs have low awareness of the role and importance of IA.

Regarding IA quality assurance and improvement, in most cases, compliance with Standard 1300 – Quality Assurance and Improvement Programme cannot be guaranteed because of the lack of staff in the IA units. In 64% of established IA units, the audit executive manager did not develop a programme to ensure and improve the quality of IA activities. Internal quality evaluations, as an integral part of the programme, are performed by 47% of IA units. The most prevalent reason reported for not conducting an internal evaluation of the IA is understaffing, i.e., the IA unit has only one internal auditor and the position of head of IA is vacant, so that periodical self-assessments cannot be done.

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

2.2.3 Planning and evaluation of work

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

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

2.2.4 Overview of performed audits

The head of internal audit is responsible for implementing the annual internal audit 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 PFB manager.

Table 7 - Number of planned, follow-up, implemented and unimplemented audits in 2020, by type of PFB

PFB		Number of audits in 2020			
		Planned audits	Follow-up audits on demand	Implemented audits	Unimplemented audits ²⁰
Central level	Ministries with constituent admin. bodies	97	5	74	28
	MSIO	47	0	34	13
	Other DBBs	32	1	24	9
	IBBs	27	2	19	10
	PEs at central level	191	2	134	59
	Other PFBs (excl. PEs)	105	14	85	34
	Users of NHIF funds	90	10	77	23
	Total	589	34	447	176
Local level	LSG DBBs	174	36	154	56
	LSG IBBs	0	0	0	0
	Other PFBs (PUCs and similar) founded	213	12	110	115

²⁰ Audits that were either not implemented or were in progress at the date of reporting.

PFB		Number of audits in 2020			
		Planned audits	Follow-up audits on demand	Implemented audits	Unimplemented audits ²⁰
	by the local government				
	Total	387	48	264	171
Total in Serbia		976	82	711	347

According to the submitted IA activity reports, 976 audits and 82 follow-up audits on demand were planned, 711 audits were implemented while 347 planned audits were not implemented.

Table 8 – Number of audits, by year

Year	Total number of audits in 2018, 2019 and 2020		
	Planned audits ²¹	Implemented audits	Unimplemented audits ²²
Total in 2018	974	780	194
Total in 2019	1011	781	230
Total in 2020	1058	711	347

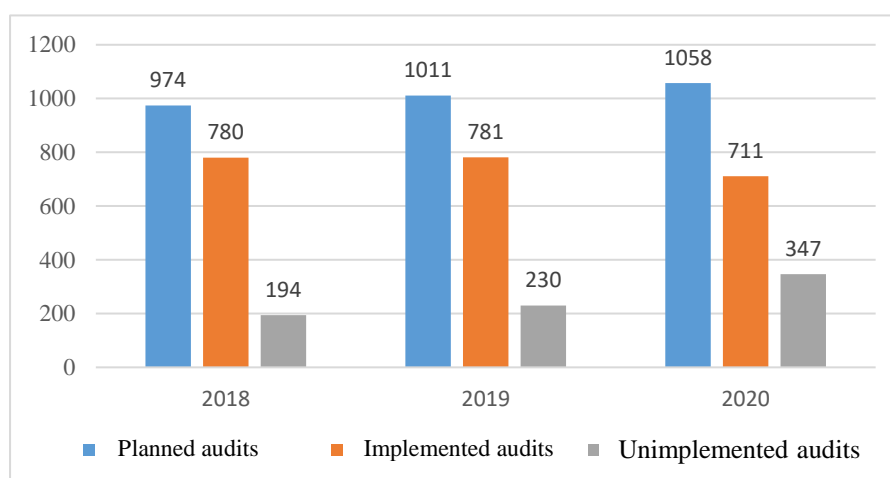


Figure 9 – Implementation of the annual internal audit plan

As shown in **Table 9** and **Figure 9**, a further 5% increase in planned audits was observed in 2020 relative to 2019. However, in this reporting period, we observed a 9% decrease in implemented audits, and consequently an

increase in unimplemented audits by a high 51% compared to the previous year. The main cause of such a sharp rise in non-fulfilled engagements was the declaration of a national emergency and the pandemic-induced crisis.

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

Year	Planned audits	Audits implemented	Audits not implemented
2018	9%	7%	17%
2019	4%	0%	19%
2020	5%	-9%	51%

²¹ The number of planned audits includes audits that were subsequently planned on demand.

²² Including ongoing audits.

The following reasons were provided in the reports for deviations from the annual IA plan for 2020:

1. the current epidemiological situation caused by the pandemic and the specific conditions of work (work from home, work in shifts, changes of business priorities);
2. restrictions on staff capacity (understaffing, lack of internal auditors);
3. insufficient maturity of IA (newly established IA);
4. internal auditors are in the process of being trained.

The high percentage of unimplemented audits indicates certain shortcomings in the planning and execution of audits, therefore, the CHU, through its regular activities in the sphere of continuous education, needs to further educate auditors in this area as well as in the IA quality review process.

2.2.5 Status of internal audit recommendations

Internal auditors made a total of 5,540 recommendations for improving operations and reducing identified risks to an acceptable level. As a consequence of a larger number of unimplemented audits due to the pandemic, there was a 24% drop in the number of recommendations provided in 2020 compared to the previous year.

A breakdown of the areas of recommendations reveals a decline in the number of recommendations in all areas, except in the area of accounting and financial reporting relative to 2019.

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

Recommendation area ²³		Number of recommendations in 2018	Number of recommendations in 2019	Number of recommendations in 2020
1.	Internal rules and procedures	↑2587	↑3405	↓2761
2.	Planning	↑370	↑390	↓240
3.	Revenues and proceeds	↑255	↓170	↓113
4.	Public procurement and contracting	↓595	↑637	↓450
5.	Employees, salaries and benefits	↑460	↑529	↓377
6.	Payments and transfers	↑255	↓244	↓159
7.	Accounting and financial reporting	↑568	↑590	↑678
8.	Information systems	↓184	↑213	↓190
Recommendations in non-categorized areas		↑2048	↓1071	↓572
TOTAL:		7322	↓7249	↓5540

Based on a comparative analysis between the positive results in the number of internal audit recommendations from the previous years and in this reporting period, we can conclude that the

²³ The areas and type of recommendations are provided in accordance with the official Annual Report Form on published IA audits and activities submitted by the PFBs.

pandemic drastically affected the decline in the total number of recommendations provided as well as the number of recommendations provided in specific areas of PFB operations. In the coming period, the PFBs will need to invest additional efforts to return the level of internal audit activity to at least the pre-pandemic level.

Table 11. Rate of implementation of recommendations, by PFB category, in 2020

#	PFB	Number of recommendations provided	Implemented recommendations (%)	Recommendations whose deadline did not expire (%)	Unimplemented recommendations ²⁴ (%)
1	Ministries with constituent administrative bodies	1234	40%	28%	32%
2	MSIOs	255	95%	5%	0%
3	Other DBBs	126	50%	40%	10%
4	IBBs	162	48%	42%	10%
5	PEs at central level	1113	68%	11%	21%
6	Other PFBs (excl. PEs)	557	49%	38%	13%
7	Users of NHIF funds	346	50%	15%	35%
Total at central level		3793	55%	23%	22%
1	LSG DBBs	1082	55%	32%	13%
2	LSG IBBs	0	0%	0%	0%
3	Other PFBs (PUCs and similar) founded by local government	665	43%	35%	22%
Total at local level		1747	51%	33%	16%
Total in Serbia		5540	54%	26%	20%

Table 11 shows the recommendations provided and implemented in 2020. Out of a total of 5,540 recommendations made in 2020, the PFBs as a whole implemented a total of 2,972 recommendations, i.e., 54% of the total number of recommendations provided. This indicator was at the same level as last year. Given that this indicator measures the implementation of recommendations in the same reporting period in which the recommendations were provided, the recommendations provided at the end of the reporting period had to be taken into account as well, but for objective reasons the latter can only be implemented in the next reporting period. Therefore, the table also shows the percentage of recommendations whose deadline for implementation has not yet expired (26%). According to the presented data, a total of about 20% of the recommendations were not implemented. The main reasons reported for not implementing recommendations past the deadline are the current epidemiological situation, limited staff capacity and the fact that the implementation of the recommendations is still ongoing.

Looking at the individual PFB categories, we noted that MSIOs continued with a positive trend in the implementation of recommendations. Compared to the previous year, MSIOs maintained a high 95% rate of implementation of recommendations. This indicator speaks of the high awareness

²⁴ Unimplemented recommendations also include recommendations that were not accepted by the PFB management.

of the management of MSIOs of the importance of IA and IA reports and recommendations for the management and organization.

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

2.2.6 Internal audit consulting services

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

Table 12 – Overview of consulting services provided, by PFB in 2020

No.	PFB	Number of implemented consulting engagements
1	Ministries with constituent administrative bodies	7
2	MSIO	0
3	Other DBBs	12
4	IBBs	8
5	PEs at central level	35
6	Other PFBs (excl. PEs)	32
7	Users of NHIF funds	26
Total - central level		120
1	LSG DBBs	34
2	LSG IBBs	0
3	Other PFBs (PUCs and similar) founded by the local government	39
Total – local level		73
Total in Serbia		193

Table 14 - Overview of consulting services provided in the 2018–2020 period

Year	Number of implemented engagements
2018	215
2019	242
2020	193

Based on the reports submitted by PFBs, 193 auditor consulting engagements were carried out in 2020, which is a 20% decline relative to the previous year. The main reason for such a significant drop in the provision of consulting services is the pandemic-induced national emergency and

crisis, given that the activity of internal auditors, as well as other PFB staff, was limited to a great extent.

According to the PFBs, the main reasons for failure to implement the planned advisory services in 2020 are as follows:

1. The epidemiological situation caused by the pandemic;
2. Internal auditors are in the training process;
3. The IA is in the process of being established;
4. Consulting services were provided by phone;
5. Restrictions on staff capacity (understaffing, absence of internal auditors);
6. Insufficient demand by the management for consulting services.

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

Regarding the methodological materials prepared by the CHU in the previous year, 54% of PFBs with functional IA stated that they use the published Model for internal evaluation of the performance of IA units, while 20% stated that they use the Tools for auditing EU IPA funds.²⁵

2.2.7 Quality review of internal audit activity

The CHU conducted a quality review of IA activity in ten public funds beneficiaries in the period from 1 January 2019 to 30 September 2020. The report on the quality review of IA activity No. 153-00-224/2021-09 of 9 June 2021 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:

- Treasury Administration – Ministry of Finance;
- Administration for Joint Service of the Republic Bodies;
- Serbian Railways Infrastructure a.d.;
- Faculty of Technical Sciences of the University of Novi Sad;
- PUC Belgrade City Public Transport Company;
- PUC Belgrade Water and Sewerage Company;
- PUC Novi Sad Water and Sewerage Company.

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

²⁵ These materials are primarily intended for ministries, and 10 ministries, that are also IPA accredited bodies, are using them in their work.

The consolidated report on the IA quality review was drafted on the basis of individual reviews in PFBs performed by certified internal auditors in the public sector, employed in the CHU.

The PIFC Development Strategy in Serbia for the 2017–2020 period, under Specific Objective 4.3.4. Development of a Model for Evaluating the Performance of Internal Auditors, envisages Measure: Stipulate by a regulation the external evaluation of the quality of work of internal audits performed in public fund beneficiary institutions according to the peer review method, coordinated by the Central Harmonization Unit. In accordance with this Measure, with the support of GIZ under the Public Finance Reform – Agenda 2030, the consulting company Ernst & Young was hired to support the CHU in improving the existing methodology for external evaluation of the quality of IA performance and in applying this methodology in two selected public funds beneficiaries that have established the IA function.

In the PFBs included in the IA quality review, the IA function was established by prescribing the required number of internal auditor positions in the regulation on internal organization and job systematization, pursuant to the IA Rulebook. All of them have envisaged IA units with three or more internal auditor positions in their internal regulation, of which in six PFBs three internal auditor positions were filled, respectively, and in one PFB only one. Out of the systematized 30 internal auditor positions, 26 were filled, of which 20 internal auditors are Certified Internal Auditors in the public sector, while the remaining six are in the process of training for acquiring this title.

In PFBs that an IA unit with only one internal auditor there is reason to doubt whether IA standards can be fully met.

Internal auditors, in the PFBs covered by the review, apply the IA work methodology and are familiar with the IIA's International Standards of Professional Practice of Internal Auditing. All established IA units have adopted the basic documents necessary for their activity: charter, code of ethics, strategic work plan and annual work plan, but in some cases these documents are not published internally and forwarded to all senior managers in the PFB. Some IA units failed to align the text of the charter with the model charter published on the MFIN/CHU website²⁶, and failed to update signatories in line with the current situation, but these are in the process of alignment.

The documenting of advisory arrangements is often not concise and there is a lack of supporting working documents showing the use of audit time. Because of the shortcomings identified in the documentation of the advisory services performed inconsistencies were noted in the IA activity reports, as the auditor-time used for the performance of IA tasks is not adequately justified.

In 2020, in some IA units, annual work plans had to be adjusted due to the lengthy absence of employees (sick leave) as a consequence of the adverse impact caused by the pandemic.

Resources for the implementation of audit plans are in line with realistic possibilities, albeit with reported constraints in IA units with only one internal auditor. Certain constraints were also reported in connection with the plans of IA units in which the personnel structure changed due to the departure of experienced internal auditors and the recruitment of new ones who are now undergoing training. The plans do not provide a full account of consulting audit engagements, which are a large part of the work of the IA units. Part of the IA units planned to perform follow-

²⁶ <https://www.mfin.gov.rs/o-ministarstvu/interna-revizija>

up audits, albeit to a limited extent. The most common reason for the absence of these audits is the small number of employed auditors in the IA units, i.e., the insufficient number of available auditor days in relation to the volume of the audit.

It was also found that each individual step was not documented in the planning process and that adopted plans were not made available to all senior managers in the PFB. In the preparation of plans, consultations with all senior managers should be presented and the planned auditor-time for the implementation of consulting engagements must be clearly stated. This will contribute to raising the transparency of the IA activity in the PFBs to a higher level as well as raising awareness of the need for all managers and employees to implement the full set activities envisaged under the internal control system.

The IA performance internal control should be constantly supervised by the IA manager. IA units with three or more internal auditors have the ability to implement this procedure, but IA units that are understaffed usually omit this procedure or perform it as a mere formality (the IA manager is also the auditor conducting the audit). The IA working documents are signed by the auditor who prepared it and by the auditor who performed the review. In PFBs that have an IA unit with only one internal auditor, the internal quality control procedure is not being implemented.

IA units express the need for training in their annual plans, but in general terms, without specifying the areas in which training is needed. In direct communication, internal auditors reported the need for additional practical training for performance audits and IT audits. They also pointed out that they are often prevented from attending certain trainings due to the lack of funds allocated for this purpose in the organization's budgets in 2020, due to the adverse impact of the pandemic.

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

- In line with their HR capacities, PFBs should fill the internal auditor positions to ensure that IA is genuinely utilized by the management as a tool for the management of the organization;
- Regularly update the internal audit charter and code of ethics and provide access to these documents to all managers and employees within the organization;
- In the process of preparing plans, document each individual action and make the plans available to all executives and staff in the organization. In the plans, specify the auditor-time required for the implementation of consulting audit engagements that represent a significant share of IA activity;
- Consistently document the performed consulting services to confirm that IA tasks were implemented and justify the use of auditor-time.

2.2.8 PFBs' proposals for the development of internal audit

The most frequently mentioned proposals and suggestions for improving internal audit provided by internal auditors in the individual annual reports are, primarily:

- education, additional training, and professional development of internal auditors through seminars, trainings, and workshops;
- the CHU should provide a greater number of trainings to create greater opportunities for the continuous professional development of internal auditors;
- exchange of experiences and good business practices with colleagues from the region, in cooperation with the CHU, national and international experts, national and international institutions and associations;

- promote IA and raise awareness of its importance, especially among PFB managers;
- the CHU should systematically consider all factors that impact the filling of internal auditor positions and retention of existing staff;
- consider improving the material status of internal auditors taking into account the responsibility and complexity of IA as well as working conditions;
- amend the Rulebook on the professional development of certified internal auditors in the public sector with regard to the issue of the unequal appraisal system for the performance of internal auditors in IA units and independent auditors;
- the CHU should enable internal auditors to earn the required points for attending organized professional training due to the limited funds available to PFBs for independently financing trainings.

In the proposals related to trainings, i.e., workshops and seminars, a small share of PFBs specified areas in which additional training is needed. Specifically, when preparing the annual internal audit plan, the education and training plan for internal auditors should be developed and aligned with the annual work plan. The needs and directions of internal audit development in terms of acquiring new knowledge, should be developed in accordance with the risk assessment and the annual activity plan based thereon, to ensure the achievement of internal audit objectives and the rational and efficient use of resources.

2.2.9 Implementation of recommendations from the CAR for 2019

As of this year, issues related to the implementation of the recommendations from the CAR on the state of internal controls in the public sector for the previous year have been included in the Annual Report on internal audits and internal audit activities. Of the 345 PFBs whose reports were included in the analysis, 82% stated that they were familiar with the content of the recommendations provided in the previous CAR in the field of IA, while 56% of PFBs stated that they were working on the implementation of these recommendations. The reasons for non-implementation are:

- limited budget resources that make it difficult to provide the required IA staff;
- long-term ban on and restrictions of employment compounded by natural staff attrition;
- lack of qualified staff;
- poor understanding of the role of IA in the organization, which affects the staffing of IA units with internal auditors;
- the PFB did not establish or is in the process of establishing the IA function;
- internal auditors are undergoing training;
- the pandemic slowed down or suspended the implementation of recommendations, especially in medical facilities;
- lack of specialized staff for the performance of IT audits and similar.

2.3 External evaluation of the FMC system: how COSO works in practice

The information obtained on the status of the FMC system in PFBs is based on self-assessment, and the questions are largely about the design of the FMC system. PFBs report based on their knowledge and the information they have.

In order to get a realistic picture of how the FMC system works in practice we must also take into account an external system evaluation, so this section provides an overview of how the internal control system works in practice from the perspective of the SAI and Budget Inspectorate.

For this reason, the CAR PIFC Report for 2020 also includes data from the annual reports on the activity of the SAI and Budget Inspectorate in 2020. Each from its own perspective, these two institutions are testing the application of FMC and contribute to providing a comprehensive overview of the status of PIFC. In addition, with its recommendations, the SAI continuously encourages PFBs, as the auditees, to commit themselves to improving their FMC systems and establishing the IA function.

This chapter presents the relevant conclusions of the State Audit Institution (SAI) and Budget Inspectorate (BI), in order to properly understand them we should take into account the following constraints to directly cross-referencing their findings with the methodology used by the CHU:

- the SAI and BI are focused on materiality and weaknesses in transactions, while PFBs in their reports cover the overall functioning of all business processes in the organization in the context of the COSO framework;
- the sample of inspected entities does not match the sample reporting to the CHU;
- the data are also not comparable from the aspect of the period in which data were collected.

Due to the foregoing constraints, the data provided by SAI and BI are not comparable to the data prepared by the CHU in this report, hence, the findings of the analysis presented herein should only be used as an illustration and source of additional information on the PIFC system.

2.3.1 Overview of the recommendations of the State Audit Institution (SAI) in the area of financial management and control and internal auditing in public funds beneficiaries, provided in the SAI 2020 Activity Report

The SAI is the highest state authority for auditing public funds in Serbia, authorized and tasked with controlling the execution of all budgets. It has a prominent role in strengthening the accountability of public office holders through auditing, reporting, recommendations, initiatives for the amendment of regulations and promoting best practices.

The SAI 2020 Activity Report²⁷ on the implementation of the Institutions Audit Programme for 2020, consists of four sections: Financial Audits, Compliance Audits, Financial and Compliance Audits and Performance Audits²⁸.

In 95 of 173 audited entities (55%), irregularities were found in the internal control system and the internal audit (IA) was found to be inadequate in 53% of the entities.

The audit of annual financial statements and final accounts covered, among other things, the functioning of the FMC and IA systems. Based on the examination of the functioning of internal controls in most entities, *no assurance was obtained that the FMC system was established in such a way as to ensure, through its functioning, that operations are in line with the objectives of that system.*

²⁷ For additional information, please refer to: <http://dri.rs/php/document/download/3633/1>

²⁸ The overview of SAI recommendations in this document does not include the findings of the performance audit as no data is available in the format required for this report.

Irregularities in the area of the functioning of the FMC system, according to the SAI audit findings, are shown in Table 14 below.

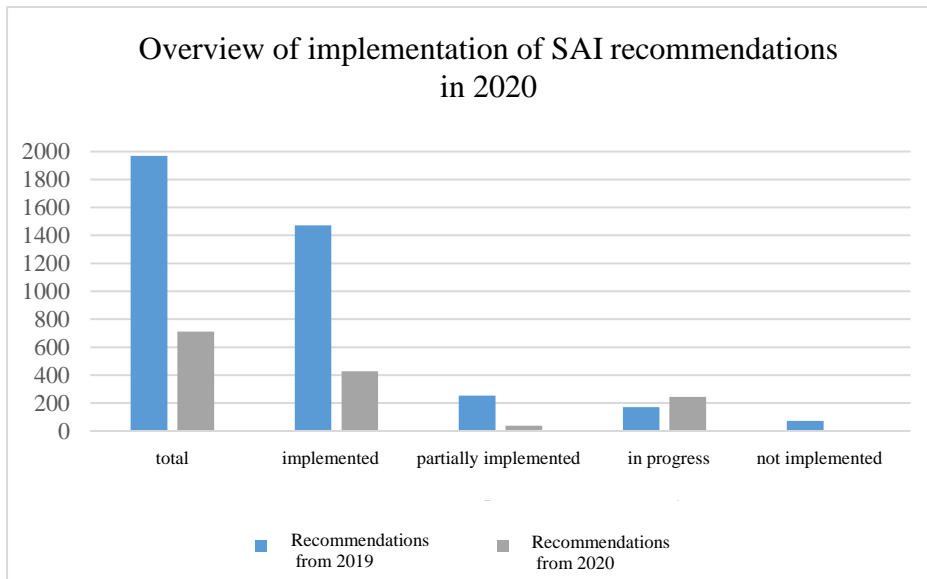
Table 14. Irregularities in the functioning of FMC by type of PFB in the financial audits segment

PFB category:	Beneficiaries of central government budget funds		Beneficiaries of local government budget funds		MSIO/ users of NHIF funds		PEs/companies /institutions		Other PFBs		Total cases	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Control environment	1	1,75	45	11,14	4	6,78	-	-	-	-	50	9,19
Risk management	9	15,79	12	2,97	6	10,17	7	31,82	1	50	35	6,43
Control activities	26	45,61	213	52,72	30	50,85	7	31,82	-	-	276	50,74
Information and communication	18	31,58	128	31,68	12	20,34	1	4,54	-	-	159	29,23
M&E of the system	3	5,26	6	1,48	7	11,86	7	31,82	1	50	24	4,41
Total	57	100	404	100	59	100	22	100	2	100	544	100

The highest number of irregularities was found in the control activities segment, and the second highest-ranked segment was information and communication. An overview of the most significant findings in the field of FMC, by PFB category, reveals the following types of irregularities:

- internal acts are missing or are incomplete, in other words, procedures are not regulated, or control activities are not established, which leads to irregularities;
- internal acts are not aligned with higher level legislation, which is a consequence of inadequate monitoring of regulations and amendments thereto;
- the established control activities are not being implemented (e.g., absence of oversight, failure to compile minutes, payments without formal and substantial confirmation of accuracy, failure to complete an inventory);
- internal acts are inconsistent with each other.

The implementation of SAI recommendations has positive effects in terms of improved financial reporting, improved internal controls and increased regulatory compliance, reduced expenditures, increased revenues and other benefits for citizens.



In the course of 2020, the audited entities implemented the recommendations provided in 2019 and 2020. The audited entities implemented 1,473 recommendations (75%) of a total of 1,970 recommendations provided in 2019 and proved in their follow-up reports that they implemented

428 recommendations (60%) of a total of 711 recommendations provided in 2020. Recommendations “in progress” means that action has been taken to implement the recommendations, and that follow-up reports indicate that a longer period of time is required for their implementation.

The rating of the level of monitoring of internal/external audit recommendations is high in most PFBs. In the FMC questionnaire, all PFB groups reported average scores of more than 4 – even at the local level (even in IBBs, which had lower than average scores in the self-assessment questionnaire). Looking at 2020, 54% of the IA recommendations provided in this year were implemented, for 26% the deadline for implementation has not expired by the time of reporting, and 20% of the recommendations were not implemented. SAI recommendations are being implemented to a slightly greater extent than IA recommendations.

2.3.2 Overview of inspection oversight by the Budget Inspectorate according to its 2020 Annual Activity Report

The Budget Inspectorate, as an organizational unit under the Ministry of Finance, is responsible for the inspection of DBBs and IBBs, MSIOs, as well as other entities, and controls compliance with the law in material and financial operations as well as the lawful use of funds for their intended purpose, in accordance with the BSL.

The purpose of inspections is to strengthen the accountability of PFBs for the lawful and purposeful spending of the budget, i.e., public funds, to reduce and eliminate irregularities and infringements in the organizations’ operations and improve financial discipline.

The Budget Inspectorate activity report²⁹ provides information to the Government of Serbia on the implementation of the work programme for the previous year, on identified infringements and irregularities as well as on proposed action to eliminate these, on decisions issued ordering compliance with measures, on financial impact achieved, as well as proposed amendments to regulations in the field of inspection.

²⁹ For additional information, please refer to: <https://www.mfin.gov.rs/kontrola-javnih-sredstava/godisnji-izvestaj-ogradu-budzetske-inspekcije-za-2020-godinu>

According to the Annual Activity Report of the Budget Inspectorate for 2020, the Budget Inspectorate carried out inspections in 74 entities. Still, due to the declaration of national emergency due to the pandemic, there were deviations from the inspection activities envisaged in the Work Programme for 2020.

In 2020 the Budget Inspectorate:

- inspected 34 entities, of which 27 inspections ended in the compilation and serving of a report, while the enforcement of the remaining 7 inspections was postponed to 2021;
- started 11 extraordinary inspections, of which 5 were fully implemented, while the full implementation of the remaining 6 was postponed to 2021.

The report showed that in most cases the risks identified in the inspection matched the risk assessment of the organization. Also, the inspections determined that compliance with regulations, evaluated by means of checklists, is satisfactory.

A total of 66 infringements and irregularities were identified in the 27 entities in which inspections were finalized in 2020. The average number of identified irregularities is 2 per inspection.

It was concluded that the greatest number of infringements was registered in the control activities segment and concerns non-compliance or incorrect application of the following regulations:

1. Budget System Law;
2. Regulations on financial discipline, i.e., the Law on Payment Deadlines for Commercial Transactions;
3. Labour legislation, i.e., Labour Law;
4. Regulations on public procurement, i.e., Law on Public Procurement;
5. Regulations on public debt, i.e., Law on Public Debt;
6. Regulations on sport, i.e., Law on Sport;
7. Regulations on budget accounting, i.e., the Budget Accounting Regulation;
8. Accounting regulations, i.e., Law on Accounting;
9. Irregularities in the application of other bylaws.

The Budget Inspectorate is substantially involved in the comprehensive reform system of financial control of the use of budget funds, i.e., public funds. The key documents on the basis of which the Budget Inspectorate reports are the Public Administration Reform Strategy in the Republic of Serbia (PAR), Negotiating Chapter 32 – Financial Control, Public Financial Management Reform Programme 2016–2020 (PFMR) and the PforR on Modernization and Optimization of Public Administration (World Bank Loan Progress Report).

*

Based on the foregoing, we can conclude that the rate of implementation of SAI recommendations is high. These data are completely consistent with the reports submitted by PFBs. In that respect, it is expected that PFBs will continue to implement findings and recommendations in the FMC and IA field at the same pace as in the previous period.

In the process of regularly updating the FMC system, the PFB management and members of the FMC WG established in the PFB should consider the findings and measures of the SAI and Budget

Inspectorate, to determine the causes of deviations, adequately assess risks, and introduce appropriate controls to mitigate these risks.

It should be noted that the internal auditors of PFBs, by becoming familiar and scanning the audit environment, should stay up to date with the findings of the SAI and the measures of the Budget Inspectorate, and monitor the implementation of their recommendations to improve business and achieve PFB objectives.

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

To prevent the spread of the pandemic, on March 15, 2020, Serbia's Prime Minister, Parliament Speaker and President decided to declare a national emergency. The national emergency was lifted on May 6, 2020 by decision of the Parliament. In this period, and thereafter, a set of measures was put in place to regulate the work of PFBs in order to prevent the spread of the virus.

The impact of the pandemic on the main PIFC parameters was significant. They are addressed in the IA chapter, where we have demonstrated with precision the impact on the analysed individual IA parameters, as well as in CAR section [2.1.7 FMC from the perspective of PFBs](#).

For the purpose of analysing with greater precision the impact of the pandemic on certain aspects of the functioning of the internal control system, the questionnaire included a set of questions related to the functioning of the FMC and IA systems in conditions of the pandemic. The questions provide respondents with multiple answer options (i.e., the possibility to choose statements that are applicable to their organization), also concerning their experience of working from home and the functioning of the organization in this period.

Impact on FMC

In response to the question on the functioning of the organization during the pandemic, the majority of PFBs (86.58%) stated that they have had to adjust their work plans to the new situation.

The pandemic has significantly affected the achievement of the objectives of PFBs. Although a relatively modest 14.16% share of PFBs reported that they failed to fully reach their objectives, the deviations of certain groups of PFBs from this value are significant: as many as 32.35% of users of NHIF funds, 30.56 % of PEs at the central level and 24.06% of PFBs at the local level could not fully meet their objectives. Also, in 5.59% of PFBs objectives were not achieved within the planned deadlines, however, MSIOs and PEs at the central level significantly deviate from this average score (25.00% and 13.89%, respectively).

It is encouraging that only 3.03% of PFBs reported a reduced level of control, mostly in ministries with constituent administrative bodies (11.36%), and not a single MSIO reported a reduced level of control.

The volume of work increased in 20.75% of PFBs, while at the central level this percentage is slightly higher (users of NHIF funds are particularly prominent in this group, with a high 52.94% share that answered this question affirmatively).

The need to make arrangements for working from home was one of the most important characteristics of the pandemic. Most PFBs (66.64%) have a positive experience with this type of work. At the central level, MSIOs took the lead (75%), followed by IBBs (73.59%) and PEs (66.67%). However, 21.61% of PFBs were not able to shift to working from home. Predictably, this mostly refers to healthcare facilities (65.88%). 11.75% of PFBs had negative experiences with this type of work, with small deviations from the average scores among the observed groups.

The results of the qualitative analysis show that most PFBs encountered various challenges related to work from home, most often related to technical equipment, which was either not provided for or inadequate. Specifically, employees often did not have a good internet connection and access to computers and documentation. Also, users of NHIF funds reported increased engagement of medical and administrative staff, as well as financial services in conditions of the pandemic.

Impact on IA

In 56.23% of PFBs, IA adjusted the work plans to the situation. 13.62% of PFBs believes that the level of internal control declined, but not a single MSIO. On the other hand, a higher percentage of IAs in local PFBs reported a reduced level of control (20.00%). The opinion that objectives were not reached within the planned deadlines and were not fully met was expressed by 24.64% and 24.35% of all PFBs, respectively, which is a more significant impact on the achievement of objectives than noted in the section dealing with other PFB functions (please refer to the Section on the “Impact on FMC” – the paragraph related to the achievement of objectives). 6.96% of PFBs stated that the volume of work had increased.

Unlike IA, MSIOs reported exclusively positive experiences with working from home. The answers of other PFBs differ on this issue, in fact, 40.29% of IAs reported positive experiences, 11.30% negative ones, and almost half (48.41%) reported that making arrangements for working from home had not been possible.

The results of the qualitative analysis show that most PFBs encountered challenges in collecting documentation. Because of restrictions on the number of staff in the office, working from home was often a necessity, but it also created difficulties in access to documents of great importance for work, as well as in communicating with colleagues and line managers.

*

While this situation created difficulties, it must be noted that it also opened new opportunities for progress, for both employees and managers. The change in work arrangements led to the acceleration of modernization and change of established practices in the work of most PFBs. In addition to accelerating the digitalization process, it also promoted positive changes in the way PFBs operate.

III REPORTING ON PROGRESS

The CHU regularly monitors:

1. The development of the PIFC Strategy for the 2017–2020 period;
2. Recommendations from the EC Progress Report for 2020;
3. The implementation of recommendations from the CAR for 2019.

The implementation of the PIFC Strategy Action Plan as well as the monitoring of the recommendations from the EC Progress Report for 2020 and the PIFC Annual Report for 2019 are set out in Annexes 2, 7 and 8 of this report.

The rate of implementation of monitored recommendations from the EC Progress Report for 2020, and from the CAR on the Status of PIFC for 2019, are as follows: out of 8 recommendations from the EC Progress Report for 2020, 2 were implemented (25%), and the remaining 6 are in the process of implementation (75%). As regards the recommendations from the CAR on PIFC for 2019, 4 out of 16 recommendations were implemented (35%), 3 recommendations were partially implemented (18.75%), 4 are multi-year recommendations, and their implementation is ongoing (35%). As a result of the pandemic, 4 recommendations were not implemented on time, and their implementation is ongoing (35%), while one recommendation is being implemented on an ongoing basis (6.25%). It should be noted that, of the four recommendations related to the FMC system, three are multi-year recommendations, and are in the process of implementation (75%), while one has been fully implemented (25%). Of the remaining 12 recommendations on IA, 3 have been implemented (25%), 3 have been partially implemented (25%), and one is a multi-year recommendation, and its implementation is ongoing (8.33%). Also, due to the pandemic, the implementation of 4 recommendations had to be delayed and their implementation is currently in progress (33.34%), and one is implemented on a continuous basis (8.33%).

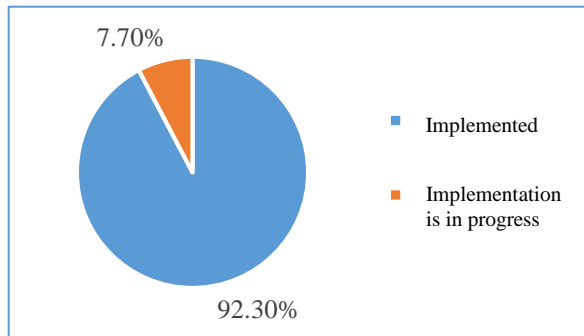
In the context of the previous CAR recommendations related to PFBs, 82% of PFBs that submitted the IA report stated that they were familiar with the content of the recommendations from the previous CAR related to IA, while 56% of PFBs stated that they were working on their implementation. When looking at the recommendations on FMC from the previous CAR, approximately half of the PFBs stated that they are working to implement each of them.

3.1 Overview of results achieved based on the objectives referred to in the PIFC Development Strategy 2017-2020

The Public Internal Financial Control (PIFC) is a comprehensive system of measures for the management and control of public revenues, expenditure, assets and liabilities established by the Government through public sector organizations to ensure that the management and control of public funds, including foreign funds, comply with the regulations, the budget, and principles of sound financial management, that is, the principles of efficiency, effectiveness, economy and transparency/openness. As such, in the context of planning and implementing public policies, PIFC falls under the Area of Public Administration.

The overall goal of the PIFC Strategy is to improve the public administration in Serbia by strengthening public sector accountability.

The Action Plan (for the 2019–2020 period) for the implementation of the PIFC Strategy for the period from 2017 to 2020 has been successfully implemented. In 2020, a total of 26 activities were envisaged, of which 24 (92.30%) were successfully implemented, and two are still in progress (completion is expected in the second half of 2021). There are no unimplemented activities. Also,

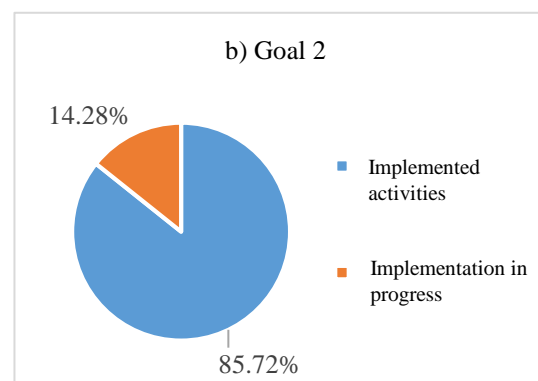
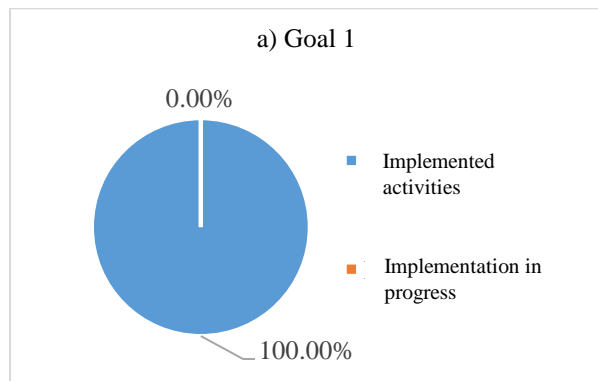


in this AP, the implementation of some activities scheduled in 2019 was delayed so that three were implemented in 2020, three in March 2021, while the implementation of one activity is still in progress.

Figure 10 - Percentage of implemented activities from the 2019-2020 AP for the implementation of the PIFC Strategy 2017-2020

Below is a graphic overview of activities implemented in the observed period, by PIFC Strategy 2017–2020 strategic goal.

All of the 14 activities envisaged under Strategic Goal 1: Improve the role of the Ministry of Finance – CHU in the field of coordination, monitoring, education and informing of executives and staff engaged in the PIFC process were implemented.



Under Strategic Goal 2: Raising awareness on financial management and control as an integral part of the management process with emphasis on managerial accountability, risk management and quality assessment, in 2020, 6 or 7 planned activities were fully implemented (85.72%), and the implementation of one activity is in progress (14.28%). There are no unimplemented activities.

Under Strategic Goal 3. Further development of IA in terms of professionalism and scope of work, more efficient use of available resources and development of the quality assessment system for 2020, 4 of the 5 planned activities were fully implemented (80%), and the implementation of one activity is ongoing (20%). There are no unimplemented activities.

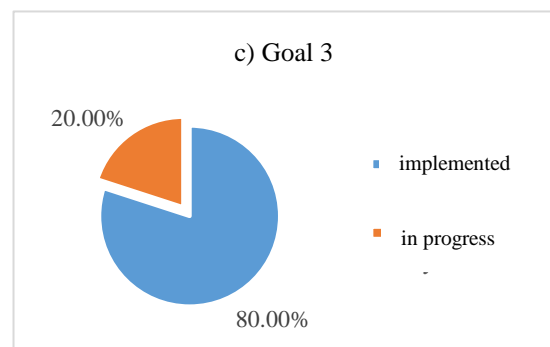


Figure 11a) b) c) - Percentage of implemented activities from the 2019-2020 AP for the implementation of the PIFC Strategy 2017-2020, by objective

3.1.1 Key results

In 2020, the e-Learning section of the CHU website was supplemented with an extensive set of methodological materials, to enhance knowledge in the field of FMC and IA.³⁰

Measures to improve the PIFC at the strategic level are integrated into the new AP for the implementation of the PFMR Programme for the 2021-2025 period, in the context of the development of managerial accountability in the AP for the implementation of the PAR Strategy 2021-2030. In 2020, intensive coordination and cooperation with institutions, and their organizational units relevant for this area, continued.

The web application, used by the PFBs to report to the CHU on the adequacy and functioning of the FMC and IA systems, was improved in 2020, thus facilitating and accelerating the submission of reports.

The year 2020 was the first year in which PFBs reported on the management of irregularities, as well as the first year in which PFB managers were required to issue a Statement on Internal Control.

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

The CHU continued to perform regular quality reviews of IA activity and FMC system in PFBs.

3.2 CHU activities

3.2.1 Improvement of IA and FMC materials

In 2020, the CHU improved and aligned the following FMC and IA methodological materials:

- FMC Guideline;
- IA Guideline;

Also, the following guidelines and tools were developed/updated with the support of the Twinning Project:

- Delegation System Guidelines;
- Managerial Accountability Guidelines;
- Risk Management Guidelines;
- FMC Guidelines for small public funds beneficiaries;
- Guidelines for Managing Irregularities;
- Guidelines on Performance Management;

³⁰ For detailed information, please refer to the section on [3.4.1 Improvement of training materials in the field of internal audit and financial management and control](#)

- Guidelines for Financial Departments;
- Internal Control Quality Review Guidelines;
- Guidelines for the Establishment of a Joint Internal Audit Unit;
- Model for internal quality evaluation of the performance of internal audit units;
- Tools for auditing the use of IPA funds which include a risk assessment model for IPA fund audits as well as a system audit checklist for IPA audits; and
- Guidelines for the implementation of internal audits of joint intersectoral programmes and projects - "Horizontal audits".

Activities focused on preparing amendments to the Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector, and the Rulebook on the conditions and procedure of taking the exam for certified internal auditors in the public sector, for the purpose of optimizing and improving the organization of IA and improving the process of certification of internal auditors, respectively, and the FMC Manual was updated in the section related to COSO 2013 and managerial accountability. Part of the existing guidelines and tools were further developed to facilitate the establishment/improvement of the FMC and IA systems, and part were updated.

The adoption of these manuals and the beginning of their practical implementation is expected by the end of 2021, while the guidelines and tools are already in use and can be found on the MFIN/CHU website.

3.2.2 Improvement of the concept of managerial accountability

The concept of managerial accountability is an important pillar of the public administration reform. It was integrated into the PIFC system through the BSL and subsequently defined in detail in the FMC Rulebook.

Throughout 2020, the CHU implemented activities to promote managerial accountability, with the support of the Twinning Project, through a pilot project under which managerial accountability was tested and improved in four pilot institutions (MFIN, MPALS, PPS and NES), which resulted in the development of a set of methodological materials (<https://www.mfin.gov.rs/o-ministarstvu/e-learning>) that are contributing to the development of this concept.

The Managerial Accountability Guidelines were updated in the first quarter of 2020 under the Twinning Project and published on the MFIN/CHU website.

Trainings in managerial accountability were delivered with the support of the Twinning Project.

In the context of the development of managerial accountability, coordination and cooperation was continued with institutions and organizational units that are key to this area, such as the MPALS, PPS and the MFIN Budget Department. The General Secretariat of the Government of Serbia provided its support, and a joint approach to the development of managerial accountability was agreed, which will be further developed by the Subgroup on Accountability and Transparency of the Working Group for the development of the PAR Strategy (supported by SIGMA and the EC).

With the support of GIZ, activities on the introduction of the concept of performance management were continued, performance management tools were refined and implemented in two departments of the Ministry of Finance (Budget Inspection Department and International Cooperation and European Integration Department) and in two departments of the Ministry of

Economy (Department for Control and Oversight of Public Enterprises and Quality Assurance and Product Safety Department).

Taking into account the aforementioned results of the Twinning Project, technical and methodological preparations were made for the formulation and implementation of activities related to the Public Administration Reform Strategy (PAR) for the 2021-2030 period that will systematically include activities aimed at improving managerial accountability. Specific Objective 6 of the new PAR Strategy: Accountability and Transparency, envisages two measures that are aimed at changing the regulatory and methodological framework as well as supporting implementation. The first envisages setting up systemic solutions (the establishment of systemic solutions for managerial accountability in public administration bodies, which includes activities to improve the delegation of responsibilities, set clear lines of accountability between institutions and performance appraisal at the institutional level, as well as the establishment of the Register of Public Office Holders). The second measure specifically targets the improvement of performance management (Improvement of the vertical and horizontal system of control and monitoring of the performance of the public administration (Establishment of a mechanism for performance management in public administration bodies)).

3.2.3 Training

In 2020, the following set of trainings was held on the topic of FMC:

- basic FMC training provided by the CHU which was attended by 24 participants from various public sector institutions in Serbia;
- with the support of the experts of the Twinning Project “Support to Further Development of Public Internal Financial Control (PIFC)”:
 - o Managerial accountability/financial management and control: Risk management;
 - o Further awareness raising, promotion and networking in the financial management and control system: Development of a working document for networking to adequately exchange information;
 - o Implementation of FMC quality reviews in PFBs;
 - o CHU business process management with the help of the RACI methodology;
 - o Risk mapping and assessment – example of the French Tax Administration, Reviewing the performance of organizations within the remit of ministries: Performance Agreement;
 - o Public governance for public-private partnerships: Best practices in terms of institutional systems that foster efficient, cost-effective and effective public-private partnerships, along with the establishment of clear accountability lines.

For the purpose of contributing to the continuous professional development of certified internal auditors in the public sector, with the support of the UNDP/SECO project, the CHU organized a webinar on "Performance Audit Methodology" which was attended by 216 certified public sector internal auditors.

In addition to the webinars mentioned herein, CHU staff also attended trainings on IT audits delivered by the CEF³¹, and organized by the World Bank, through the Public Expenditure Management Public Expenditure Management Peer Assisted Learning network (PEMPAL), as well as a training for the preparation and implementation of external evaluation and programmes

³¹ [Home - Centre of Excellence in Finance \(cef-see.org\)](#) - the Centre of Excellence in Finance is a leading regional institution that promotes capacity-building in public finance across Eastern Europe.

for improving the performance of internal audit units which was organized by the TAIEX expert mission.

Due to the pandemic, NAPA did not organize any training programmes for FMC and IA in 2020. CHU and NAPA intensified cooperation in 2021, among other, a set of trainings in PIFC are planned for NAPA managers and staff, and basic FMC training was held in the form of webinars through the NAPA platform, whose resources will be used in the future as well.

An external assessment of the performance of IA is underway in the MFIN and the Joint Stock Company Elektromreža Srbije. The assessment covers the period from 1 January 2019 to 31 December 2020. The activity is scheduled to be completed in August 2021.

3.2.4 Certification of internal auditors

In the May 2020 exam term, 15 candidates acquired the title of certified internal auditor in the public sector. In the November exam term for 2020, which was postponed to February 2021 due to restrictions related to the pandemic, 13 candidates passed the exam.

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

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

By December 31, 2020, there were, in total, 478 certified internal auditors in the public sector. The report on professional development for 2020 was submitted by a total of 251 internal auditors, i.e., 52.5% of certified internal auditors in the public sector.

A certified internal auditor in the public sector is required to earn at least 50 points for professional development in one year, of which at least five points through organized professional training. Out of the total number of submitted Reports on Professional Training, 146 certified internal auditors, i.e., 58.1% of certified internal auditors in the public sector met the requirement, and a total of 93,

i.e., 37% did not comply with this requirement. In total, 12, i.e., 4.9% of certified internal auditors submitted their Reports but for justified reasons failed to earn points (i.e., they had 0 points).

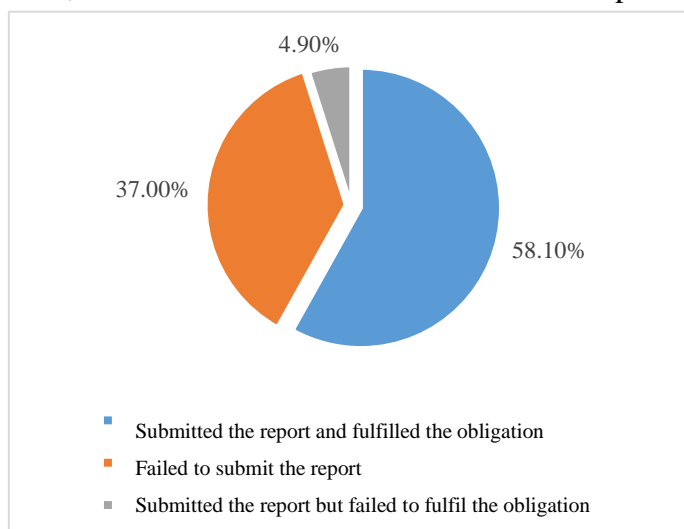


Figure 12 – certified internal auditors who submitted their reports on professional development

The CHU published its records on the professional development of internal auditors in the public sector for 2020 on the MFIN website³².

³² <https://mfin.gov.rs/o-ministarstvu/evidencija-o-strucnom-usavrsavanju-internih-revizora-u-javnom-sektoru-za-2020-godinu>

It should be noted that the draft PFMR Programme for 2021–2025 envisages an activity related to the preparation and implementation of the Programme for Continuous Professional Development of Internal Auditors, hence, an increased number of IA trainings can be expected in the coming years.

3.2.6 International cooperation and projects

The EU-funded Twinning Project - "Support to Further Development of Public Internal Financial Control (PIFC)", implemented in cooperation with the Ministry of Finance of France, ended in 2020. Its most important result is the improved level of FMC, managerial accountability, especially through the pilot project, and IA, as well as the improvement of the status of the CHU through the production of CHU instruments for networking and promotion of PIFC.

Another completed project was the "Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management", funded by SECO, with UNDP as the implementing partner. The project focused on establishing a rational and fully functional system for the certification of internal auditors, removing legislative barriers to attracting internal auditors from the private to the public sector, as well as facilitating the improvement of technical and professional capacities of the CHU.

The Accountable Public Finance Management Platform project, funded by the Swedish International Development Cooperation Agency (SIDA) with UNDP as the implementing partner in the part relevant to the PIFC, is dedicated to improving the professional status of internal auditors.

The CHU continued cooperation with the RELOF 2 project, which focuses on supporting local governments in applying the principles of good governance in risk and performance management, through comprehensive internal control and adequate public finance management. In its first phase, the project involves the delivery of technical assistance and support to groups of local governments, (partnerships) formed around local governments that already have some capacities for the successful implementation of good governance principles. The donor is SECO.

The German International Cooperation Organization's (GIZ) project "Public Finance Reform – Financing the 2030 Agenda", which has been running for several years now, is continuing with its activities and providing significant support to the CHU.

Cooperation with SIGMA, which is an important partner of the CHU, has continued in 2020.

A performance assessment of Public Finance Management and Financial Accountability (PEFA) for Serbia was conducted in 2020 by the World Bank's team of consultants. The experts' recommendations as part of this assessment significantly contributed to the improvement of PFMR 2021–2025. The final draft of the PEFA Report was completed in April 2021, and a final report is expected to follow.

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

In 2020, the World Bank organized one-day webinars through PEMPAL, focusing on topics related to internal audit monitoring, monitoring of the Central Harmonization Unit and the theory and practice of internal auditing. The purpose of the webinars was to present the results of a survey

on monitoring IA activity in the public sector of the PEMPAL member states, exchange of opinions on the challenges and opportunities for the CHU in monitoring IA activities and exploring new technologies and related present and future challenges for internal auditors in the digital era (IT audit).

3.2.7 Promoting the importance of internal financial control

Activities promoting the importance of PIFC that were implemented in 2020, were mostly organized with the support of the Twinning Project (workshops, training and events attended by internal auditors, management representatives and FMC coordinators, video material on managerial accountability published on MFIN's YouTube channel).

The CHU, with the support of the RELOF 2 project, also focused on improving visibility and raising public awareness about the importance of FMC and IA. The focus of communication activities was on establishing and implementing a communication plan for the reform of internal financial control at the local level, which was part of the support provided by the RELOF 2 Project to the MFIN.

Part of the planned activities was not implemented due to the pandemic and was therefore postponed to 2021.

IV WEAKNESSES AND RECOMMENDATIONS

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

4.1 Financial Management and Control

A significant percentage of the most important institutions and PEs at the central government level, that account for the largest share of expenditures and outlays of Serbia's budget, and revenues of the PE group, are regularly reporting on the state of the FMC system. At the local level, the authorities and services of the province and cities largely fulfil the reporting requirement, at least in terms of the coverage of the total budget. The analysis of results by level and category of PFBs shows that PFBs at the central level in most cases are reporting better results compared to the local level.

There has been steady progress in the ratings of the application of the COSO framework principles in the PFBs that are reporting regularly to the CHU. The categories of MSIO, PE, followed by the ministries with constituent administrative bodies, generally lead when it comes to the scores of the state of the FMC system. The information and communication system was the best-rated element of the COSO framework in 2020. The overall average score for all elements of the FMC system was 2.14% higher in 2020 compared to 2019. Significant progress was made in the area of risk management. The overall average score of the risk management component recorded the highest growth rate (4.10%). A noticeable increase was also recorded with regard to compiling the risk register (18.20%). An encouraging 10.53% growth was recorded in the adoption of action plans for the development of the FMC system. The increase in the sphere of establishing internal control in business processes, taking into account the most significant risks, stood at 7.81%. For the first time, PFBs submitted a Statement on Internal Control, as an integral part of the FMC report. With this statement PFB managers confirm that they have obtained reasonable assurance that the FMC system in the organization they manage is compliant with international internal control standards, that the internal control system is efficient and effective, and that the organization is managed in accordance with good governance principles. PFBs also started reporting on the management of irregularities. PFBs reported that the level of controls was not significantly reduced due to the pandemic.

The following weaknesses were identified in the FMC system:

- Apart from the most important institutions in Serbia (those that account for the largest share of Serbia's budget), which are regularly reporting to the CHU on the state of their FMC systems, all PFBs in Serbia are required by law to report to the CHU. From the group of the most important PFBs, some cities and PEs failed to submit their reports on the status of the FMC systems;
- Basic documents for the development of FMC systems, such as business process maps and risk registers, are missing in some of the most important PFBs. As many as 9 out of a total of 21 ministries (42.86%) are missing both basic components of the FMC system, i.e., they neither have a business process map nor a risk register. This applies to 10 PEs (27.78%) and 16% of cities;

- The local level (excluding the effects on the average score of IBBs at the central level – primarily schools) had lower scores compared to the national level in all elements of the COSO framework³³;
- The weakest self-assessment results were observed at the level of IBBs both at the central and local level;
- The monitoring, supervision and evaluation of the FMC system is still the lowest rated component of the COSO framework. The scores of this component are expected to improve, with improved results in the establishment of IA and the introduction of the Statement on Internal Control and Management of Irregularities;
- While some progress was noted compared to last year, the growth rate of scores in the segment of risk management must be maintained;
- The PFBs are not regularly updating and improving business processes and/or revising control activities that are in the function of risk management in practice;
- The Action Plan for the establishment of the FMC system was adopted in 33.86% of all PFBs, i.e., 26.65% at the central and 33.86% at the local level. While 100% of organizations in the MSIO group have adopted this document, in the group of ministries with constituent administrative bodies and PEs, this is the case only with every other PFB (51.16% and 52.78%, respectively). When up to date, in addition to the obvious benefits of introducing FMC, this document is one of the most useful tools for improving the system.

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

- PFB managers are key actors in setting up the FMC system under the COSO framework and they need to engage and allocate adequate resources, particularly in terms of staff time and coordination of the activity, and, with the help of the FMC Guidelines and other methodological guidelines prepared by the CHU (available on the MFIN/CHU website), regularly report to reach and demonstrate that COSO standards are applied in their organizations;
- The most important PFBs that are still not reporting to the CHU on the development of the FMC system, should immediately get involved in the reporting process and start working on improving the FMC system in their respective organizations, and strive to observe COSO principles according to the FMC Guidelines and other methodological tools produced by the CHU. The need to fulfil the statutory requirement to report on their FMC systems to the Ministry of Finance, applies, among other, to certain PFBs from the PE group (PE Zavod za udžbenike, Uvac Nature Reserve d.o.o., PE Kopaonik National Park, Mokra Gora Nature Park d.o.o. and PE Šarplanina National Park , as well as some cities (Kraljevo, Loznica and Prokuplje);
- The most important PFBs should improve their capacities and lead by example positioning themselves as leaders and demonstrate the positive effects and value created by internal controls. Thus, first and foremost, DBBs (ministries, cities, etc.) will be in a position to engage in the development of the FMC system in PFBs under their remit and encourage its wider adoption;
- Looking at the ministries' category, it they should raise the level of establishment of the FMC system in the coming period. In that respect, some ministries, with the help of the FMC Guidelines and other methodological guidelines prepared by the CHU, should develop the following basic documents:

³³ It is due to the impact of the scores of schools that the local level as a whole was better rated by individual components than the central level as a whole.

- Map of business processes: Ministry of Justice, Ministry of the Interior, Ministry of Health, Ministry of Rural Welfare, Ministry of Family Welfare and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management, Ministry of Environmental Protection and Ministry of Foreign Affairs; as well as
- Risk register: Ministry of Justice, Ministry of the Interior, Ministry of Labour, Employment, Veterans and Social Affairs, Ministry of Rural Welfare, Ministry of Family and Demography, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management, Ministry of Environmental Protection and Ministry of Foreign Affairs;
- The following PEs should draw up the following documents, with the help of the FMC Manual and other methodological guidelines prepared by the CHU:
 - Map of business processes: Airports Serbia d.o.o, Transportgas Srbija d.o.o, PE Fruška Gora National Park, PE Ponikve Airport, Serbian Railways a.d, PE Stara Planina, PE Mreža Most, PE Rosulje Airport, PE Resavica Coal Mine, State Lottery of Serbia d.o.o., PE Srbijagas, Metohija d.o.o. Belgrade and Golubac Fortress; as well as
 - Risk Register: Serbia Airports d.o.o, Transportgas Srbija d.o.o, PE Fruška Gora National Park, PE Ponikve Airport, Serbian Railways a.d, PE Stara planina, PE Srbijavode, PE Tara National Park Tara, PE Mreža Most, PE Srbijašume, PE Rosulje Airport, State Lottery of Serbia d.o.o., Public Enterprise for Shelters, PE Electric Power Industry of Serbia - EPS, Fortress Golubac Fortress and Srbija Voz a.d.
- In the category of cities, the following cities should, with the help of the FMC Manual and other methodological guidelines prepared by the CHU (which can be found on the MFIN/CHU website) develop the following:
 - Map of business processes: Bor, Kruševac, Leskovac, Novi Pazar, Smederevo, Valjevo, Kragujevac and Niš; and
 - Risk register: Novi Pazar, Smederevo, Zaječar, Valjevo and Niš;
- The PFBs need to invest continuous efforts in improving risk management. To this end, the PFBs should use the guidelines and tools that were prepared and improved over the course of 2018 and 2019. In this sense, PFBs should first adopt a Risk Management Strategy, and subsequently in the risk management process create a risk register, update it regularly, as well as establish control activities to reduce risk to an acceptable level, especially given that this obligation is also provided for in the bylaws governing the FMC system in detail³⁴;
- PFBs should regularly update their action plans so as to continuously improve their FMC system. Specifically, this means that, aside from the self-assessment questionnaires they send in annually, PFBs should, among other things and on the basis of their scores, determine which segments of the FMC system should be improved in the coming period.
- All PFBs should use the FMC Manual, and the extensive methodological tools in the field of FMC and managerial accountability prepared and published by the CHU. Methodological guidelines are the best response to the expressed needs for training and knowledge in the field of FMC. Also, CHU employees provide support to all PFBs in need of help.

³⁴ Article 8 of the FMC Rulebook

4.2 Internal audit

According to the latest data from 2021, 324 PFBs have normatively established the IA function and 202 also functionally in accordance with regulations (178 normatively at the central level and 146 at the local level, and 118 functionally at the central level and 84 at the local level). Most institutions at the central level have established IA. In Serbia's public sector, there are currently 714 systematized internal auditor posts, of which 526 have been filled. The number of internal auditors is constantly growing.

Although the internal audit has been set up and is functional in an increasing number of PFBs, the following weaknesses were identified in this area:

- Ministries with constituent administrative bodies: the stagnation in the development of the IA function in the category of ministries with constituent administrative bodies has continued, where we recorded the same number of employed internal auditors as last year. The Ministry of Environmental Protection and the Ministry of Foreign Affairs have not yet filled any internal auditor positions, and the same applies to the three new ministries that were established in 2020. Fourteen of a total of 21 ministries do not have a minimum of three employed internal auditors in their IA units, which is 67% of this PFB group. Consequently, the IA cannot cover all risky business areas in the ministry and department.
- Cities and municipalities: At the level of local self-government, in the category of cities and municipalities, the number of employed internal auditors decreased by 4% compared to last year. In accordance with Article 6(1) of the IA Rulebook, cities are required to have a fully staffed IA unit, and 79% of cities do not fulfil the requirement of having a minimum of three employed internal auditors. Due to insufficient human resources, IA cannot cover all risky business within the remit of local government.
- Weaknesses shared by all groups of PFBs:
 - A high percentage of established internal audits with two or fewer auditors raises doubt as to whether internal audit standards can be fully observed;
 - While an effort was made to recruit a number of new internal auditors, the inability to attract and retain qualified staff is still evident, resulting in an inadequate number of internal auditors. Due to the long-term freeze on new employment, the number of candidates applying for basic internal audit training is in decline, which is an indication of the dwindling potential for bringing in new internal auditors in the public sector. An additional decrease in the size of the internal audit workforce is to be expected due to natural attrition, considering the average age of internal auditor staff;
 - A significant number of IA units in PFBs does not have quality assurance and improvement programmes in place, or full internal evaluation of the performance of IA, aside from regular oversight by the head of internal audit. The reason for this situation is the failure to fill the vacant positions, i.e., one internal auditor in the IA unit or head of IA, which makes periodical self-assessment impossible;
 - Annual IA Work Plans were not fulfilled as planned in most PFBs due to the declaration of a national emergency;
 - The decline in the number of implemented assurance services led to a decline in the total number of recommendations made in almost all areas of PFB activity compared to last year. The main cause of this situation is the declaration of a national emergency and the pandemic-induced crisis;
 - Insufficient support by PFB managers is one of the causes of identified weaknesses in the areas of filling the positions of internal auditors, implementing IA

recommendations, performance of other non-IA tasks and enabling professional training of internal auditors.

The following recommendations are made for the elimination of identified weaknesses:

- Recommendations related to the setting up IA, staffing IA units and improving the professional status of internal auditors:
 - In accordance with Article 82(1) of the Budget System Law, all PFBs should comply with the prescribed systematization (internal staffing plan), number of staff and fill the internal auditor positions in accordance with the regulations, risks, complexity of operations and the amount of funds they manage. In the internal staffing plan, the employment of internal auditors should not be made conditional on the possession of a certificate for certified internal auditor in the public sector. Internal auditors must meet the requirements for acquiring this certificate, which are: at least three years of experience in auditing, internal control, financial control or accounting and financial affairs. When auditors are assigned to their job, they will apply for training for certified internal auditors in the public sector. Job descriptions for internal auditors can be downloaded from the MFIN website:
<https://www.mfin.gov.rs/o-ministarstvu/interna-revizija>;
 - By way of priority:
 - the Ministry of Youth and Sport, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Family Welfare and Demography and Ministry of Rural Welfare should align their job systematization (staffing plan) with Article 3, paragraph 3 and Article 5, paragraph 2 of the IA Rulebook, and establish an IA unit with at least three internal auditor positions and staff these units as soon as possible;
 - the Ministry of Environmental Protection, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Mining and Energy, Ministry of Economy, Ministry of Trade, Tourism and Telecommunications, Ministry of Agriculture, Forestry and Water Management, Ministry of Construction, Transport and Infrastructure, Ministry of Public Administration and Local Self-Government and Ministry of Education, Science and Technological Development should within their existing human resources capacity, select or recruit appropriate staff to fill the positions of internal auditors as soon as possible;
 - By way of priority:
 - the cities of Subotica, Kruševac, Vranje, Kikinda, Pančevo, Sremska Mitrovica, Loznica, Pirot, Jagodina, Bor, Smederevo, Leskovac, Šabac, Zaječar, Vršac, Kraljevo and Sombor should align their internal job systematization with Article 3, para. 3 and Article 6, para. 1 of the IA Rulebook and form an IA unit with at least three internal auditors and fill these positions as soon as possible;
 - the cities of Niš, Požarevac, Zrenjanin, Valjevo and Čačak should fill the internal auditor vacancies as soon as possible;
 - The CHU should systematically examine all factors influencing the staffing of internal audit units, as well as the adequacy of the existing policy of attracting and retaining staff.
- The role of PFB management is crucial for the adequate establishment of the internal audit function. Therefore, managers who have not adequately established an internal audit function in their institution should, in addition to filling internal auditor positions, also engage in the adequate implementation of internal audit recommendations, to ensure independence of the internal audit function by preventing auditors from performing other tasks that may become

subject to audit, as well as by ensuring unlimited access to documentation and facilitating audit performance, as well as the professional development of internal auditors.

- The heads of internal audit units, which should be made fully functional, should adopt a quality assurance and improvement programme and perform an internal IA performance evaluation in accordance with the existing Model for internal quality reviews of internal audit units recommended by the CHU. This Model can be downloaded on the MFIN website: https://www.mfin.gov.rs/upload/media/36M0fR_6061d4b31000e.pdf;
- To comply with the annual IA work plan, achieve efficiency in conducting audit engagements and reduce the number of unimplemented engagements, every PFB should, in addition to strengthening staff capacity, review all individual causes for failure to implement audit engagements and invest efforts to resolve them. The PFB and its IA need to ensure that the annual IA plan is realistic, adequate, and in line with the risk assessment. Deviations are possible as a result of future events or contingencies that have not been and could not have been predicted at the time when the plan was made. All known circumstances, such as regular annual audits, the entry into force of new regulations and similar, as well as the available human resources and their expertise, should be taken into account when planning. The annual IA work plan should be periodically reviewed and, if necessary, corrected, with the obligatory consent and approval of the PFB manager. In addition, to increase the efficiency of IA and ensure that it achieves its purpose and objectives, PFBs should invest efforts to eliminate the identified causes for non-fulfilment of the annual IA work plan. For the purpose of timely control of the implementation of the signed action plan for the implementation of IA recommendations, the submission of progress reports on the implementation of the signed action plan and accepted IA recommendations by the audited entities, within the prescribed deadlines, would have a positive effect.

4.3 Central Harmonization Unit

The year 2020 was the last year of implementation of the PIFC Strategy 2017–2020. This Strategy is one of the first policy documents adopted by the Government of Serbia in the context of European integration. The related AP was implemented extremely successfully, specifically, a high 92.31% share of activities was implemented, 5.13% partially implemented, and 2.56%, i.e., one activity, is currently still in progress. We should also bear in mind that the partial implementation of some of the activities was a consequence of pandemic-related constraints. Intensive efforts were invested in the implementation of the EC recommendations from the Progress Report under Chapter 32 (25% of the recommendations was implemented, while 75% of the activities are in the process of implementation) as well as in the implementation of the recommendations from the previous CAR (35% of recommendations was implemented, 18.75 % partially implemented, while 35% are multi-annual recommendations, and their implementation is ongoing). Due to the pandemic, 35% of recommendations were not implemented on time – their implementation is ongoing, and one recommendation is being implemented on a continuous basis (6.25%).

The Twinning Project implemented with the French Ministry of Finance and Economy under IPA was successfully completed in June 2020. Activities on the production of all planned educational materials were completed, so the knowledge base offered by the CHU in various internal control segments is currently extremely rich. The FMC and IA Guidelines were updated and a large number of methodological materials from various PIFC areas were prepared. In addition to the strengthening the PIFC system, the pilot exercise will remain a key result, embedded into the

foundations for further action aimed at improving managerial accountability, planned in detail in the PAR Strategy.

The CHU is regularly implementing internal audit quality reviews (in 7 PFBs in 2020) as well as FMC quality reviews (in 2 PFBs in 2020).

The pandemic had a substantial impact on the training activities implemented by the CHU, in fact, only one of the basic trainings prescribed by the regulations was held, for 24 participants from various public sector institutions in Serbia. In the May 2020 exam term, 15 candidates acquired the title of Certified Internal Auditor in the public sector. In the November exam term for 2020, which was postponed to February 2021 due to pandemic-related constraints, 13 candidates passed the exam.

Intensive efforts were invested in the preparation of a new set of planning documents which were adopted in the first half of 2021, in which the PIFC features prominently. Activities and measures were prepared for the improvement of managerial accountability, which are a part of the PAR Strategy 2021–2030, which is the umbrella strategy, under the Accountability and Transparency Pillar, while most of the activities for further improvement of PIFC are envisaged under the PFMR Programme 2021–2025, under a specific objective. All documents are comprehensive and harmonized with the Law on the Planning System (RS Official Gazette of No. 30/18); they are detailed and methodologically standardized according to the highest standards. The documents responded to systemic weaknesses and recommendations provided in the previous CARs that are also relevant to this year's review of the situation in the PIFC sector. Objectives, measures and activities aimed at improving PIFC directly embedded in the relevant elements dedicated to the PIFC under the PFMR Programme 2021–2025, aim to provide additional support to priority PFBs, especially in the domain of risk management, development of materials tailored to specific IBBs, for the prioritization from the perspective of monitoring and analysing the state of FMC and improving the regulatory-methodological framework. The measure dedicated to the improvement of IA focuses on improving the quality of IA. In addition, the plan is to strengthen the CHU to improve PIFC monitoring by automating monitoring of the status of recommendations as well as introducing a single information system for performing audit engagements. Activities aimed at modernizing the training system are also planned. Considering that the CHU has already integrated activities on all identified systemic weaknesses into the PFMR Programme, they will not be specifically mentioned on this occasion.

CONCLUSION

The year 2020 was largely marked by the pandemic in the PIFC sphere too. Its most prominent adverse effects were registered in IA and are reflected in the decline in the number of recommendations, failure to implement advisory services, adjustment of annual plans, etc., through to the almost complete impossibility to organize traditional trainings conducted by CHU, delays in adopting key PIFC planning documents. However, regardless of the circumstances, a lot has been accomplished, and the level of control has not been significantly reduced due to the pandemic. As the analysis showed, PFBs largely managed to cope with the new situation and adjusted their functioning to the circumstances.

The most prominent result is that the submission of a signed Statement on Internal Controls by PFB managers has now become a standard practice, as an integral part of the FMC report. In a statement, the PFB manager confirms that he/she has obtained reasonable assurance that the FMC system in the organization he/she manages is compliant with international internal control standards, that the internal control system is efficient and effective, and that the organization is managed in accordance with good governance principles. In addition to this, in the 2020 reporting period, PFBs started to report on the management of irregularities.

Electronic reporting has been fully implemented.

As in the previous years, the most important public sector institutions in Serbia are reporting on the FMC system (the DBBs that submitted their reports account for 97.52% of expenditures and outlays in Serbia's budget for 2020) and have, to a significant extent, aligned their FMC systems with international internal control standards (INTOSAI, which includes the COSO framework). Mandatory social insurance organizations, public enterprises and ministries with constituent administrative bodies distinguished themselves with the highest scores of the financial management and control system.

Parameters that were not significantly affected by the pandemic recorded a trend of sustained growth, such as the increase in the number of submitted reports on FMC and IA, growth of average scores of COSO components, progress in components related to the establishment of the FMC system, significant progress in risk management, increase in the number of established IA units, in the number of systematized and filled internal auditor positions, etc. In the group of priority PFBs, the rate of coverage of Serbia's budget by internal audit stood at over 85%. Overall, the results for the five components of the COSO framework - segments of the control environment, control activities, and in particular the information and communication system - deserve solid scores. The key areas in which a significant share of PFBs must invest additional efforts are *monitoring and evaluation and risk management*.

With regard to the identified weaknesses, recommendations for the improvement of the FMC and IA were provided to specific institutions, primarily to certain ministries and cities. Because of the importance they have for the society at large, these institutions should position themselves as leaders and demonstrate by example the positive effects and value created by internal controls. In this way, primarily the DBBs (ministries, cities, etc.) will be in a position to adequately engage in the development of the FMC system in PFBs under their remit and encourage its wider adoption.

The Twinning project with the French Ministry of Finance and Economy was successfully completed in June 2019. In the last months of the project, activities related to the development of

planned educational materials were fully completed, as a result of which the CHU is now able to offer an extremely broad knowledge base in various segments of internal control. In addition, the concept of managerial accountability in Serbia's public sector has been significantly improved – as the main prerequisite for the establishment of the PIFC – through the implementation of the "pilot exercise". Further activities will be implemented, as envisaged by the PAR Strategy, to improve this segment, with the active involvement of the relevant top-level national institutions (under the Accountability and Transparency Pillar).

The year 2020 was also the last year of implementation of the PIFC Strategy 2017–2020. With 92.31% of activities from the AP fully implemented, 5.13% partially implemented and 2.56%, i.e., one activity whose implementation is in progress, we can conclude that the implementation of the PIFC Strategy has been extremely successful. In addition to this, intensive work was invested to implement the EC recommendations as well as the recommendations from the previous CAR. Despite the delay, new strategic documents were adopted which will cover the PIFC segment in the forthcoming period – the PAR Strategy for 2021–2030. and the PFMR Programme for 2021–2025. These documents are harmonized with the LPS and prepared according to the highest methodological standards.

Two exams were held for the certification of internal auditors, and 28 candidates were granted this title.

ANNEXES

Annex 1. Legal Framework and International Standards

REPORTING REQUIREMENTS

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

With the adoption of the PIFC Strategy in the Republic of Serbia 2017–2020³⁵, the Government strongly endorsed the introduction and strengthening of the PIFC system. The Action Plan for the implementation of the PIFC Strategy 2019–2020 was adopted on 4 April 2019.

The PIFC Strategy is linked to the Public Financial Management Reform (PFMR) Programme 2016–2020 and is a key topic under Pillar IV - Effective Financial Control.

The PFMR Programme 2016–2020 reflects the Government's strong commitment to implement a comprehensive set of mutually connected and synchronous reforms in the field of public finance management in the broadest sense, with a view to increasing accountability, ensuring accountable financial management and good governance, by improving the efficiency and effectiveness of the management of public resources in Serbia.

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

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

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

PIFC PLANNING DOCUMENTS

Former strategic framework:

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

³⁵ <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Strategija%20razvoja%202017-2020.pdf>

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

New strategic framework:

- Public Administration Reform Strategy of the Republic of Serbia for the period from 2021 to 2030 (RS Official Gazette No. 42/2021);
- Action Plan for the period from 2021 to 2025 for the implementation of the Public Administration Reform Strategy of the Republic of Serbia for the period from 2021 to 2030 (RS Official Gazette No. 42/2021);
- Public Financial Management Reform Programme for the 2021–2025 period (RS Official Gazette No. 70/2021);
- Action Plan for the implementation of the Public Financial Management Reform Programme for the 2021–2025 period (RS Official Gazette No. 70/2021);
- Programme for the Reform of the Local Self-Government System in the Republic of Serbia for the 2021–2025 period with Action Plan for the 2021–2023 period (which had not been adopted yet at the time when this Report was prepared).

FINANCIAL MANAGEMENT AND CONTROL

National legislation

In addition to:

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

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

- Law on Civil Servants (RS Official Gazette No. 79/05, 81/05- correction, 83/05-correction, 64/07, 67/07-correction, 116/08, 104/09, 99/14, 94/17, 95/18 and 157/20);
- Labour Law (RS Official Gazette No. 24/05, 61/05, 54/09, 32/13, 75/14 and 13/17- Constitutional Court (CC) Decision, 113/17 and 95/18 - authentic interpretation);
- Law on Public Procurement (RS Official Gazette No. 124/12, 14/15 and 68/1591/19);
- Law on Salaries of Civil Servants and State Employees (RS Official Gazette No. 62/06, 63/06-correction, 115/06-correction, 101/07, 99/10, 108/13, 99/14 and 95/18);
- Law on Salaries in State Bodies and Public Services (RS Official Gazette No. 34/01, 62/06-other law, 63/06-amended other law, 116/08- as amended, 92 / 11, 99/11-as amended, 10/13, 55/13, 99/14 and 21/16- as amended and 113/17 - as amended);
- Law on Public Enterprises (RS Official Gazette No. 15/16 and 88/19);
- Regulation on Reimbursement of Expenses and Severance Pay for Civil Servants and Employees (RS Official Gazette No. 98/07-consolidated text, 84/14 and 84/15);
- Regulation on Budget Accounting (RS Official Gazette No. 125/03, and 12/06 and 27/20);
- Rulebook on common bases, criteria, and tasks for the activity of financial departments of direct budget beneficiaries (RS Official Gazette No. 123/03);
- Rulebook on the standard classification framework and Chart of Accounts for the budget system (RS Official Gazette No. 16/16, 49/16, 107/16 and 46/17, 114/17, 20/18, 36/18, 93/18, and 104/18, 14/19, 33/19, 68/19 and 84/19, 151/20 and 19/21);
- Rulebook regulating the preparation, compilation, and submission of financial statements of budget beneficiaries, beneficiaries of funds of mandatory social insurance organizations

and budget-based funds (RS Official Gazette No. 18/15 and 104/18, 151/20, 8/21 and 41/21);

- Rulebook regulating the use of funds from sub-accounts or other accounts of the consolidated account of the Treasury of the Republic and the reporting on investment of funds of budget beneficiaries and mandatory social insurance organizations (RS Official Gazette No. 3/04, 140/04, 1/06 and 111 / 09).

International principles and standards

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

INTERNAL AUDIT

Concept and definition

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

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

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

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

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

Legal basis and international standards

The legal framework that regulates internal audit includes the following:

- Budget System Law (RS Official Gazette No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-correction, 108/13, 142/14, 68/15 - as amended, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19 and 149/20)
- Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector (RS Official Gazette No. 99/11 and 106/13);
- Rulebook on the conditions and procedure of taking the exam for certified internal auditors in the public sector (RS Official Gazette No. 9/2014);
- Rulebook on professional development of certified internal auditors in the public sector (RS Official Gazette No. 15/2019);
- The IIA's International Standards for the Professional Practice of Internal Auditing;
- Serbia's PIFC Strategy for the 2017-2020 period³⁶ (RS Official Gazette No. 51/17);
- Action Plan for the implementation of the PIFC Strategy for the 2019-2020 period (adopted on 4 April 2019, RS Official Gazette No. 26/19).

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

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

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

Status and organization

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

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

Other public fund beneficiaries may establish internal audit as follows:

³⁶ <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Strategija%20razvoja%202017-2020.pdf>

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

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

Annex 2. Implementation of the Action Plan for the PIFC Strategy

Objective	Measure/Activity No.	Measure /Activity Time frame Indicator Lead agency Partner institution	Status	Monitoring of objectives by activity from the CAR for 2020
<i>Strengthening the role of the Ministry of Finance – the CHU in the area of coordinating, monitoring, educating and informing the managers and employees involved in the PIFC process</i> (Strategic Objective 1, the overview below shows the operational objectives)				
<i>1. Strengthening the coordination of financial management and control and internal audit activities by the CHU</i>				
1. Strengthening the coordination of financial management and control and internal audit activities by the CHU	1.1	<p>Measure/activity: Coordination of activities together with the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects, Department of the National Fund and Budget Inspection on development of a methodology of financial management and control.</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Reports/ minutes from meetings</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>Other listed MFIN organizational units</u></p>	Implemented	<p>Follow-up: Activities with the MFIN departments and administrations (Treasury Administration, the Budget Department, the Department for Contracting and Financing of EU Funded Projects, the Department for EU Funds Management and the Budget Inspectorate), related to the development of the FMC methodology were coordinated through the Public Financial Management Reform Programme. Apart from this, additional cooperation was achieved with IPA structures by strengthening the IPA internal audit system, with the Budget Department (programme budget infrastructure in the context of improving performance management), and coordination with the Budget Inspectorate under Chapter 32.</p>
	1.2	<p>Measure/activity: Organization of meetings with PFB managers /FMC coordinators and internal auditors</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Reports/minutes from meetings</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: the CHU holds regular consultations and meetings with PFB managers, FMC managers/coordinators and internal auditors.</p> <p>During the first half of 2020, the CHU held several one-day trainings on risk management for PFBs, to promote good practices. The workshops were held in cooperation with the TWINNING Project.</p> <p>In February 2020, a one-day seminar was organized for FMC coordinators in the public sector, on the topic of further awareness-raising, promotion and networking within the financial management and control system: preparation of a working document for networking with a view to adequately exchange information.</p> <p>In 2020, due to the pandemic, the PIFC WG meeting was held “in writing” – through exchange of e-mails, which resulted in a working version of the IA Rulebook being submitted for comments and suggestions to WG members.</p>

1.3	<p>Measure/activity: Organization of joint seminars with the Department for Contracting and Financing of EU Funded Projects and the Department for Management of EU Funds aimed at exchange of experiences in the area of development of financial management and control and internal audit in utilizing the EU pre-accession funds</p> <p>Time frame: <u>At least once a year</u></p> <p>Indicator: Seminars held BV: 0; TV: 2</p> <p>Lead agency: MFIN/CHU, Department for Contracting and Financing of EU Funded Projects, Department for EU Funds Management</p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: In 2020, due to the pandemic the FMC and IA WG meeting was held in writing – through exchange of e-mails discussing the following topics: the status of activities on amending the IA Rulebook, the 2019 CAR Overview of the Status of PIFC, activities related to the improvement of managerial accountability, PIFC in the context of the new cycle of policy documents, information on PIFC coordination activities.</p>
1.4	<p>Measure/activity: Cooperation with the State Audit Institution (SAI) through the working group and coordination of the exchange of experiences</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Reports / minutes from the meetings</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>SAI</u></p>	Implemented	<p>Follow-up: Cooperation with SAI is a continuous activity which takes place through working group meetings and coordination of experience exchange through bilateral meetings. In addition, in 2020, the CHU was subject to a performance audit “Efficiency of establishment of PIFC in healthcare facilities” implemented through interinstitutional cooperation of the SAI and the Ministry of Finance. The cooperation with SAI was implemented under the UNDP/SIDA project as well as through joint activities on the preparation of the PFMR Programme throughout 2020</p>
1.5	<p>Measure/activity: Coordination of activities with the NAPA in developing curricula required for the potential relocation of trainings and use of database</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Finalized curriculum, BV: 0; TV: 3</p> <p>Lead agency: <u>MFIN/CHU, National Academy for Public Administration (NAPA)</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: The cooperation between the CHU and NAPA was intensified, in terms of improving the training process in the field of PIFC in the public sector, as a result of which the General Training Programme for Civil Servants for 2021 contains the following trainings: basic training in FMC, basic training in IA, training for practical work in auditing, improving the skills of mentors of candidates for certified internal auditors in the public sector, internal control and risk management tools, as well as two trainings for management: FMC – online training, and basics of managerial accountability – online training.</p> <p>By Decision 05 number 151-1569/2021, the Government of Serbia adopted the General Training Programme for Civil Servants for 2021 and the Training Programme for Managers in State Bodies for 2021. At the same session, by Decision of the Government 05 number 151-1570 / 2021, the General Training Programme for Employees in Local Self-Government Units for 2021 and the Training Program for Managers in Local</p>

				<p>Self-Government Units for 2021 were also adopted.</p> <p>Under the General Training Programme for Civil Servants for 2021, new training programmes were introduced in internal financial controls as well as the General Training Programme for LGU employees for 2021. The training program for managers in state bodies for 2021 includes online trainings: FMC and Basics of Managerial Accountability. The adopted programmes can be viewed at the following link: https://www.napa.gov.rs/tekst/49/godisnji-programi-obuka-naju.php. In addition, with the help of SIGMA, a report was prepared on the possibilities and directions for further improvement of cooperation.</p>
2. Continuous development of methodological manuals and guidelines for internal audit and financial management and control				
2. Continuous development of methodological manuals and guidelines for internal audit and financial management and control	2.1	<p>Measure/activity: Updating and improving of the existing methodological manuals and instructions in compliance with the best international practice and ensuring the appropriate visibility on the CHU website</p> <p>Time Frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Documents published on the CHU website</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: The FMC Rulebook has been updated and published on the MFIN/CHU website in mid-2020.</p> <p>A large number of guidelines were prepared with the help of the Twinning Project, which were finalized in the first half of 2020 and posted on the MFIN/CHU website (https://mfin.gov.rs/o-ministarstvu/centralna-jedinica-za-harmonizaciju).</p>
	2.2	<p>Measure/activity: Further development of coordination among internal auditors, executives/coordinators for financial management and control, the Treasury Administration and SAI, for the purpose of developing and harmonizing methodological manuals and instructions with the national practice</p> <p>Time frame: <u>At least once a year</u></p> <p>Indicator: Reports from meetings</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>Treasury Administration, SAI and PFBs</u></p>	Implemented	<p>Follow-up: When updating the methodological materials/regulatory framework, the CHU takes into account the national practices and context and makes an effort to ensure that the methodological materials are largely adapted to national practices. This takes place through an open dialogue and regular meetings with partner institutions (in this case the SAI and the Treasury Administration are the most prominent ones (link to 1.4)), but also through direct contact with PFBs, mostly through regular consultations with PFBs in the field of FMC and IA, as well as by participating in and hosting seminars. Cooperation with the SAI is also reflected in the proactive participation of SAI representatives in the meeting of the WG for public internal financial control, held in February and September 2019.</p> <p>CHU representatives followed the online presentation of audit reports on the performance audit of the “PIFC Efficiency in Ministries” and “PIFC Efficiency in Healthcare Facilities”.</p>

				<p>Cooperation with the SAI was implemented under the UNDP/SIDA project as well as through joint activities on the preparation of the PFMR in 2020.</p> <p>Also, in the first quarter of 2020, a number of workshops was held, attended by FMC managers and coordinators as well as internal auditors, as follows: Training – Risk Mapping and Assessment, the French Tax Administration Example; Training – Managerial Accountability / Financial Management and Control: Risk Management; Seminar – Further awareness-raising, promotion and networking in the financial management and control system: preparation of a working document for networking with a view to adequately exchanging information; Training - Performance review by ministries of organizations under their responsibility: Performance Agreement.</p>
3. Coordination of continuous professional development				
3. Coordination of continuous professional development	3.1	<p>Measure/activity: Further development of professional knowledge of the CHU staff through monitoring of international practices in the area of financial management and control and internal audit</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: At least two seminars annually</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: In 2020, CHU staff attended trainings/seminars organized by the World Bank through the Public Expenditure Management Peer Assisted Learning network – PEMPAL, (Monitoring of IA, Monitoring of FMC and IA in theory and in practice); in addition, they also attended a training in IT auditing organized by CEF as well as the training organized by the TAIEX expert mission for the preparation and implementation of external evaluation and programme for the improvement of the performance of IA Units in January. In November, the CHU staff attended the online Performance Audit Methodology training organized by the UNDP/SECO Project, delivered by an international expert.</p> <p>Also, at the beginning of 2020, CHU staff attended the following trainings organized by the TWINNING project: January 28–29, 2020 - Workshop - Harmonization of business processes of the Central Harmonization Unit using the RACI methodology and March 4, 2020 - Training - Implementation of the procedure for reviewing the quality of the FMC system at PFBs.</p>
4. Development and implementation of IT support to PIFC				
4. Development and implementation of IT support for PIFC	4.1	<p>Measure/activity: Improvement of the e-learning platform to enhance exchange of knowledge in the area of financial management and control and internal audit.</p> <p>Time frame: Q4 2020</p> <p>Indicator: Posted improved training materials</p> <p>Lead agency: <u>MFIN/CHU</u></p>	Implemented	<p>Follow-up: An extensive set of guidelines (new and updated) were developed in 2019, finalized in the first quarter of 2020, and published in the second, in cooperation with the Twinning partner. For additional information please refer to the status of implementation of the CAR recommendation for 2019 that concerns the enhancement of e-learning contents.</p>

		Partner institution: <u>TWINNING partner/UNDP/RELOF</u> <u>This activity does not apply to the reporting period</u>		https://www.mfin.gov.rs/upload/media/YItwBe_6061d0f09e263.pdf .
	4.2	Measure/activity: Further development of the existing software for internal financial control in the public sector, enabling access to beneficiaries and submission of annual reports to the CHU in electronic format, which will improve the quality of data based on which a consolidated annual report on internal financial control in the public sector is developed. ³⁷ Time frame: <u>Q2 2020</u> Indicator: Report on the software upgrade, BV: 0; TV: 1 Lead agency: <u>MFIN/CHU</u> Partner institution: <u>SDC/UNDP</u>	Implemented	Follow-up: The software application became operational in late 2019, as the main technical and functional issues were resolved. User instructions were developed and sent to the PFBs. The software was tested in the reporting system for 2019, when half of all PFBs submitted their reports electronically, and its use was continued in 2020. In 2020, 2,625 PFBs submitted their reports electronically. Annual reports on the status of financial management and control were submitted by 2,578 public funds beneficiaries, and internal audit reports were submitted by 1,328 PFBs.
5. Monitoring and quality control of the Consolidated Annual Report				
5. Monitoring and quality control of the Consolidated Annual Report	5.1	Measure/activity: Improve the contents and quality of the CHU Consolidated Annual Reports on PIFC submitted to the Government Time frame: <u>Q2 2020</u> Indicator: Consolidated Annual Report for 2019 Lead agency: <u>MFIN/CHU</u> Partner institution: <u>SIGMA</u> <u>TWINNING partner</u>	Implemented	Follow-up: The report has been significantly improved, (for more details please see the status of implementation of the recommendation).
	5.2	Measure/activity: Improve the methodology for monitoring areas in which the Consolidated Annual Report on PIFC identified weaknesses Time frame: <u>Q2 2020</u> Indicator: Consolidated Annual Report for 2019 Lead agency: <u>MFIN/CHU</u> Partner institution: <u>SIGMA, Twinning Project</u>	Implemented	Follow-up: Appropriate recommendations are being prepared for identified weaknesses within the CAR. Their status is monitored within the CAR for the next year. Additionally, starting with the CAR for 2018, an analysis of trends related to certain important issues within the PIFC is being prepared. Monitoring the implementation of all recommendations from last year's CAR is an integral part of the CAR. In addition, the implementation of all recommendations received from the EC through its Progress Report under Chapter 32 is also monitored.
	5.3	Measure/activity: Determining a plan for the periodical review of internal control in PFBs Time frame: <u>Q1 2020</u> Indicator: Plan of periodic reviews of internal control in PFBs Lead agency: <u>MFIN/CHU</u> Partner institution: /	Implemented	The CHU developed a Plan for Periodical Review of Internal Control in PFBs and performed reviews in two PFBs in 2020.

³⁷Envisaged under the AP of the PAR Strategy for 2018–2020, Activity 3.3.1

6. Promote the importance of the Public Internal Financial Control reform				
6. Promote the importance of PIFC reform	6.1	<p>Measure/activity: Promote the importance of PIFC through relevant media channels</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: Press clippings and promotional materials</p> <p>Lead agency: MFIN/CHU</p> <p>Partner institution: <u>RELOF</u></p>	Implemented	<p>Follow-up: For detailed information about the media campaign promoting the importance of PIFC, please see section: 3.4.4 Promoting the importance of internal financial control.</p>
Raising awareness on financial management and control as an integral part of the management process with emphasis on managerial accountability, risk management and quality assessment (Strategic Goal 2, overview by operational objective)				
7. Provide support to all executives of public funds beneficiary institutions to achieve a genuine understanding of the significance of financial management and control activities as an integral part of strategic and operational processes with emphasis on managerial accountability				
7. Provide support to all executives of PFB institutions to achieve a genuine understanding of the significance of financial management and control activities as an integral part of strategic and operational processes with emphasis on managerial accountability	7.1	<p>Measure/activity: Improve the content and form of the CHU self-assessment questionnaires to enhance the quality of analytical data submitted by PFBs and achieve compliance with regulatory changes</p> <p>Time frame: <u>Q1 2020</u></p> <p>Indicator: Improved CHU questionnaires</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: In 2020, the CHU updated the content and form of the Self-assessment Questionnaire by aligning it with the COSO 2013 principles and adding a set of questions related to irregularities. In addition to the improved questionnaire, a Statement on Internal Control (SIC) is also a part of the reports.</p>
	7.2	<p>Measure/activity: Develop a model for the practical application of the financial management and control system, which will be available to PFBs for download via the e-learning platform on the CHU web page</p> <p>Time frame: <u>Q2 2020</u></p> <p>Indicator: Model for FMC practical application BV: 0 TV: 1</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: In 2019, the CHU intensified preparations of nine specific guidelines in the area of FMC under the TWINNING Project. All materials were completed and published in mid-2020. The RELOF 2 project prepared methodological tools adjusted to LSGs. Activities on the development of methodological materials intended for the individual PFB categories are also envisaged in the next PIFC strategic period.</p>
	7.3	<p>Measure/activity: Organize workshops and seminars for senior executives at central and local level on the role of the FMC system</p> <p>Time frame: <u>Continuously, starting from Q1 2019</u></p> <p>Indicator: At least two workshops annually BV: 0 TV: 4</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>PFBs, SDC/UNDP, RELOF</u></p>	Partially implemented	<p>Follow-up: In 2020, due to the pandemic-related constraints, the CHU postponed the workshops for senior management at the request of PFBs, and instead of the workshops, provided consultations and expert support through digital means of communication. This activity will be continued on a regular basis as soon as the conditions are met.</p> <p>The RELOF 2 project organized several workshops and trainings at local level (Risk Management – video training and conference where the methodological material for LGUs was presented)</p>

	7.4	<p>Measure/activity: Conduct an analysis of the application of internal control standards in a number of PFBs in relation to adopted financial management and control policy documents</p> <p>Time frame: <u>Q4 2020</u></p> <p>Indicator: Analysis finalized BV: yes TV: no</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>TWINNING partner in part, applicable part of the Pilot project, RELOF</u></p>	Implemented	<p>Follow-up: The activity was performed by the CHU, as part of the quality review of the PFBs' FMC system, a function that was fully established in 2019.</p>
	7.5	<p>Measure/activity: Amend the FMC Rulebook and Manual to align the managerial accountability term with good governance principles</p> <p>Time frame: <u>Q2 2019</u></p> <p>Indicator: Amended FMC Rulebook Manual</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: The FMC Rulebook entered into force on 26 December 2019. The new Rulebook aligned elements of the FMC system with amendments to the international COSO 2013 principles. This Rulebook introduces an obligation for managers to sign a Statement on Internal Control, as well as to establish a system for managing irregularities. The concept of managerial accountability is further elaborated. The FMC Manual and methodological instructions were updated, published, and posted on the MFIN/CHU website in mid-2020.</p>
	7.6	<p>Measure/activity: Update and redesign all FMC training materials in line with amended FMC and IA regulations</p> <p>Time frame: <u>Q4 2019</u></p> <p>Indicator: Updated and redesigned training materials</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: RELOF</p>	Implemented	<p>Follow-up: The process of updating and redesigning the FMC training materials started at the end of 2019. The CHU with the help of its partner, GIZ, completed the alignment of FMC training materials with existing regulations and the new COSO framework principles, international standards and principles, and best EU practices in the field of FMC.</p>
8. Strategic planning linking the goals of the organization to the overall vision of the Government				
8. Strategic planning linking the goals of the organization to the overall vision of the Government of the importance of the FMC activity as an integral element	8.1	<p>Measure/activity: Adoption of the regulation stipulating the methodology for the development of medium-term (strategic) plans</p> <p>Time frame: <u>Q1 2019</u></p> <p>Indicator: Regulation adopted BV: no TV: yes</p> <p>Lead agency: <u>MPALS</u></p> <p>Partner institution: <u>PPS</u></p>	Implemented	<p>Follow-up: Guidelines for drafting a medium-term plan were prepared under the IPA 2015 PAR Support Project and published on the PPS website on March 22, 2020, for the purpose of further clarifying the LPS and the Regulation on the methodology for drafting medium-term plans. The aim of this Manual is to provide practical guidance for developing a medium-term plan in an efficient and effective manner. The content of the Manual is based on the LPS, the Regulation on the methodology for drafting medium-term plans, the Regulation on the public policy management methodology, the analysis of the effects of public policies and regulations, and the content of individual policy documents, the BSL, as well as regulations for their implementation.</p>

of strategic and operational processes with emphasis on managerial accountability				
9. Operational planning linking operational objectives to demands for resources				
9. Operational planning linking operational objectives to demands for resources	9.1	<p>Measure/activity: Amendment of the existing regulations governing the principles of public administration internal organization will ensure the establishment of a separate internal organizational unit which will be in charge of providing professional support and coordination in the preparation and implementation of strategic and operational plans in accordance with the defined objectives of the organization and justified demands for resources</p> <p>Time frame: Q3 2019</p> <p>Indicator: Regulation enacted BV: no TV: yes</p> <p>Lead agency: <u>MPALS</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: The amended Regulation on the Principles for Internal Organization and Systematization of Posts in Ministries, Special Organizations and Government Services was adopted in March 2021, (RS Official No. 81/07 - consolidated text, 69/08, 98/12, 87/13, 2/19 and 24/21) which in Article 21a prescribes the designation of the internal unit whose terms of reference define these activities as well.</p>
10. Monitoring and reporting on objectives achieved in relation to the resources used				
10. Monitoring and reporting on objectives achieved in relation to the resources used	10.1	<p>Measure/activity: The amendment of the existing Regulation which regulates the principles for the internal organization of the public administration will provide creation of a special internal organizational unit which will be in charge of monitoring and reporting on the degree of achievement of defined objectives in relation to the resources used.</p> <p>Time frame: Q3 2019</p> <p>Indicator: Regulation enacted BV: no TV: yes</p> <p>Lead agency: <u>MPALS</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: Link to Activity 9.1</p>
11. Development of risk management process at PFBS				
11. Development of risk management process at PFBS	11.1	<p>Measure/activity: Organize CHU seminars and workshops on the topic of risk management for PFBS, to promote good practices</p> <p>Time frame: Continuously, <u>from Q2 2019</u></p> <p>Indicator: Workshops held BV: 0 TV: 4</p>	Implemented	<p>Follow-up: Due to the constraints caused by the pandemic, the CHU postponed the workshops on risk management for senior managers at the request of PFBS, and instead of the workshops, provided consultations and expert support by electronic means of communication.</p>

		Lead agency: <u>MFIN/CHU</u> Partner institution: /		<p>The RELOF project organized a video training on Risk Management for the local level stakeholders.</p> <p>In the first half of 2020, the CHU held two one-day trainings on the topic of risk management for PFBs, to promote good practices – 6 February 2020 – Training – Risk Mapping and Assessment, the French Tax Administration Example and 12 February 2020 – Training – Managerial Accountability /Financial Management and Control: Risk Assessment. The workshops were held in cooperation with the Twinning Project.</p>
12. Development of a model for evaluating the quality of financial management and control (FMC)				
12. Development of a model for evaluating the quality of FMC	12.1	Measure/activity: Introduce annual statement on internal control by the head of PFB Time frame: Q2 2019 Indicator: Annual statement on internal control introduced BV: no TV: yes Lead agency: <u>MFIN/CHU</u> Partner institution: <u>Twinning partner</u>	Implemented	Follow-up: The statement on internal control was introduced with the adoption of the FMC Rulebook, which entered into force on 26 December 2019, which is an integral part of the annual reports of PFBs for 2020. This statement confirms that the FMC system is aligned with international internal control standards.
	12.2	Measure/activity: Develop FMC quality assessment model Time frame: Q4 2020 Indicator: Developed quality assessment models Lead agency: <u>MFIN/CHU</u> Partner institution: <u>Twinning partner</u>	Implemented	Follow-up: This activity was performed by the CHU, within the frame of the FMC system quality review, which was fully established in 2019. A quality assessment model was developed for FMC which is the methodology for the FMC quality review system.
	12.3	Measure/activity: Improve knowledge and skills of CHU staff in the field of quality assessment of the financial management and control system, through continuous professional training Time frame: <u>Continuously, starting from Q2 2019</u> Indicator: At least two trainings annually Lead agency: <u>MFIN/CHU</u> Partner institution: <u>GIZ, UNDP</u>	Implemented	Follow-up: In 2019, a quality review of the financial management and control system was performed by the CHU staff in cooperation with the Twinning Project and the German International Cooperation Organization - GIZ in two pilot institutions: the NES and the Commissioner for Information of Public Interest and Personal Data Protection. Experts of the Twinning partner and GIZ partner held several trainings for CHU staff for performing FMC quality reviews. In 2020, the CHU began two FMC quality reviews as part of its regular activities envisaged in its work plan.
	12.4	Measure/activity: Introduce the irregularities management function in the financial management and control framework Time frame: Q4 2019 Indicator: Prepared guidelines BV: no TV: yes Lead agency: <u>MFIN/CHU</u> Partner institution: <u>Twinning partner</u>	Implemented	Follow-up: The FMC Rulebook introduced the concept of irregularity management (pursuant to Article 2, para. 1, item 51e of the BSL). The Guidelines for the Management of Irregularities were completed and published in 2020. The annual report on the status of internal control in PFBs includes a section with questions on irregularities.

13. Communicating accurate, relevant, and timely information concerning financial and operational performance inside and outside the organization			
13. Communicating accurate, relevant and timely information concerning financial and operational performance inside and outside the organization	13.1	<p>Measure/activity: The amendment of the existing regulation governing the state administration internal organization principles will allow for the establishment, i.e., determination of an internal organization unit that will be tasked for internal and external communication, specifically, for preparing accurate, relevant and timely information in connection with financial and operational performance to be published within and outside the organization</p> <p>Time frame: <u>Q3 2019</u></p> <p>Indicator: Regulation adopted BV: no TV: yes</p> <p>Lead agency: <u>MPALS</u></p> <p>Partner institution: /</p>	<p>Implemented</p> <p>Follow-up: Link with Activity 9.1</p>
Improving internal audit in terms of professionalism and scope of activities, efficient utilization of available resources and development of the quality review system (Strategic objective 3, the results are presented by operational objectives)			
14. Development of professional skills of internal auditors			
14. Development of professional skills of internal auditors	14.1	<p>Measure/activity: Organize meetings to exchange experiences between internal auditors from the IPA beneficiary institutions, the Audit Authority Office of EU Funds and CHU</p> <p>Time frame: <u>Once a year</u></p> <p>Indicator: Minutes from meetings</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>Institutions of the IPA beneficiary, Government Audit Office of EU funds management, Twinning partner</u></p>	<p>Implemented</p> <p>Follow-up: Cooperation was established with the IPA structures through the strengthening of internal auditing of the IPA system and the guidelines for horizontal audits were presented to them.</p>
	14.2	<p>Measure/activity: Define continuous professional development of internal auditors by a regulation</p> <p>Time frame: <u>Q1 2019</u></p> <p>Indicator: By-law on professional development of internal auditors enacted BV: no TV: yes</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: /</p>	<p>Implemented</p> <p>Follow-up: In March 2019, the Rulebook on professional development of certified internal auditors in the public sector (RS Official Gazette No. 15/19) was passed.</p>
	14.3	<p>Measure/activity: Alignment of training materials needed for the implementation of the updated IA Manual</p> <p>Time frame: <u>Q1 2019</u></p> <p>Indicator: 30 days following the update of the IA Manual</p>	<p>Implemented</p> <p>Follow-up: The update of the IA Manual was originally defined as an activity under the Agreement with the Twinning Project. With the Annex to the Twinning Agreement, the focus shifted from internal audit activities to the development of managerial accountability, which was the main reason</p>

		Lead agency: <u>MFIN/CHU</u> Partner institution: /		for postponing this activity to 2020, when the IA Manual was updated in cooperation with the UNDP/SECO project. The training materials were updated in late 2020.
15. Optimize the use of audit resources				
15. Optimize the use of audit resources	15.1	Measure/activity: Develop a systemic approach to horizontal audits based on analyses of the complexity of the audit scope and available resources Time frame: Q4 2019 Indicator: Developed guidelines Lead agency: <u>MFIN/CHU</u> Partner institution: <u>PFBs, Twinning partner (partially)</u>	Implemented	Follow-up: At the end of 2019, a working version of the Guidelines for conducting internal audit of a cross-sectoral programme – “horizontal audit” was drafted, and subsequently completed and published on the MFIN/CHU website in June 2020.
	15.2	Measure/activity: Organize workshops, pilot audits and experience sharing after performing audits, on performance audits and project audits Time frame: Q4 2020 Indicator: Reports on organized events Lead agency: <u>MFIN/CHU</u> Partner institution: <u>PFBs</u>	Partially implemented	Follow-up: The performance audit methodology was updated and is a part of the IA Guidelines. It was presented in a webinar in 2020. A pilot audit was postponed due to the pandemic.
16. Develop quality assessment model for internal auditors’ performance				
16. Develop quality assessment model for internal auditors’ performance	16.1	Measure/activity: Regulate external quality assessment of PFB internal audit by enacting a bylaw Time frame: Q4 2019 Indicator: The regulation on external quality assessment of internal audit enacted BV: no TV: yes Lead agency: <u>MFIN/CHU</u> Partner institution: /	Ongoing	Follow-up: A working version of the draft Rulebook was prepared. The model of financing the activities presented in the working version of the rulebook is currently being aligned. In cooperation with the GIZ project, we are working on improving the methodology for external evaluation of the IA quality and on organizing two external evaluation pilot projects according to the new methodology. The planned deadline for the completion of this activity is 2021.
	16.2	Measure/activity: Develop an internal quality assessment model for IA to be used by the internal audit units, to be prepared by the CHU, and develop IA quality assurance guidelines for heads of internal audit units Time frame: Q4 2019 Indicator: quality assessment model for internal auditors’ performance and IA quality assurance guidelines developed for the heads of internal audit units BV: 0 TV: 1 Lead agency: <u>MFIN/CHU</u> Partner institution: <u>Twinning partner</u>	Implemented	Follow-up: A working version of the model for internal quality assessment of the performance of IA units was completed with the support of the Twinning partner and published on the MFIN/CHU website in June 2020.

17. Establish minimum criteria for organizing a joint internal audit of PFBs (from a certain territory for the same or similar activities and for small PFBs)				
17. Establish minimum criteria for organizing a joint internal audit of PFBs (from a certain territory for the same or similar activities and for small PFBs)	17.1	<p>Measure/activity: Develop guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units</p> <p>Time frame: <u>Q1 2020</u></p> <p>Indicator: Guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units developed</p> <p>BV: 0 TV: 1</p> <p>Lead agency: <u>MFIN/CHU</u></p> <p>Partner institution: <u>PFBs, Twinning partner.</u></p>	Implemented	<p>Follow-up: At the end of 2019, a working version of the Guidelines for the establishment of a joint internal audit unit was prepared. The final version was published in June 2020 on the MFIN/CHU website.</p>
Monitoring strategy implementation				
18. Monitoring and reporting on the implementation of the PIFC Strategy and Action Plan				
18. Monitoring and reporting on the implementation of the PIFC Strategy and Action Plan	18.1	<p>Measure/activity: Monitoring of Strategy implementation and achievement of objectives, measures and activities included in the Action Plan, through meetings of the PIFC Working Group</p> <p>Time frame: <u>At least two meetings per year</u></p> <p>Indicator: Reports from meetings</p> <p>BV: 0 TV: 4</p> <p>Lead agency: <u>Working Group for PIFC and CHU</u></p> <p>Partner institution: /</p>	Implemented	<p>Follow-up: After the adoption of the Strategy, in June 2017, by the decision of the Minister of Finance, the PIFC WG was established, and its membership was changed by the new Decision of the Minister of Finance number: 119-01-277 / 2018-01 of 27 August 2018. The task of the WG is to monitor and report on the implementation of the AP. The CHU provides expert and administrative-technical support to the activity of the WG. In 2019, two WG meetings were held, and the members present discussed the AP activities implemented in 2018 and 2019, as well as those that are planned in the coming period.</p> <p>The first and second meeting of the WG for coordination of PIFC activities in 2020 were held electronically (in accordance with the constraints imposed by the pandemic) in July and December, so that WG members were informed about proposals for changes in regulations in the field of IA, as well as about:</p> <ol style="list-style-type: none"> 1. Overview of the CAR for 2019 on the status of PIFC; 2. Activities related to the improvement of managerial accountability; 3. New PIFC strategic cycle. <p>Progress reports on the WG activities were regularly submitted to the Public Administration Reform Council.</p>

	18.2	<p>Measure/activity: Monitor the implementation of the PIFC Strategy and the achievement of objectives, measures and activities envisaged in the Action Plan, through meetings of the Working Group for PIFC</p> <p>Time frame: <u>At least two meetings a year</u></p> <p>Indicator: Reports from meetings BV: O TV: 4</p> <p>Lead agency: <u>Working Group for PIFC and CHU</u></p> <p>Partner institution:/</p>	Imple mente d	Implemented continuously
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Annex 3. Overview of average scores by COSO framework question, principle, and component and by category of PFB

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

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

	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
3.1. Have you appointed an FMC manager?	72,09	100,00	52,24	44,84	69,44	70,83	59,41	48,62	77,78	45,70	80,17	65,13	53,06
3.2. Have you established a working group managed by an FMC manager, tasked with introducing and developing the financial management and control system?	76,74	100,00	46,27	40,55	69,44	61,11	51,76	44,06	83,04	43,30	80,60	65,56	49,84
3.3. Have you adopted an action plan (plan of activities) to establish a financial management and control system?	51,16	100,00	38,81	21,72	52,78	51,39	41,18	26,65	63,74	37,11	66,38	53,46	33,86
3.4. Have you established the tasks of the persons responsible for financial management and control, working groups, as well as deadlines for their execution?	74,42	100,00	53,73	30,90	63,89	62,50	49,41	36,36	77,19	40,89	72,84	60,52	42,86
3.5. Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system?	88,37	100,00	73,13	62,40	91,67	80,56	67,65	65,18	84,80	59,79	89,22	75,79	68,04
3.6. Did the managers and staff tasked with financial management and control attend training in this field?	46,51	100,00	44,78	19,37	63,89	40,28	37,65	24,36	63,74	23,37	63,36	46,69	30,37
3.7. Did you draw up business process maps?	48,84	100,00	35,82	14,41	63,89	52,78	32,94	20,22	65,50	28,18	63,79	49,28	28,04
3.8. Have you started compiling a list of business processes with descriptions? (only in case a map of business processes was not compiled)	45,45	/	41,86	27,02	53,85	61,76	37,72	29,54	50,85	27,75	60,71	39,49	31,43
3.9. Did you adopt a risk management strategy?	58,14	100,00	37,31	23,06	58,33	58,33	64,12	30,25	79,53	38,83	66,38	58,07	37,74
3.10. Have you developed a risk register?	53,49	100,00	34,33	19,24	55,56	56,94	51,76	25,80	68,42	34,36	60,78	51,59	32,74
3.11. Are internal controls in business processes in place, taking into account the major risks?	74,42	100,00	50,75	29,56	80,56	70,83	64,12	37,15	73,68	45,36	72,41	61,38	43,68
3.12. Did you set up an audit board or audit commission?	2,33	0,00	0,00	1,74	61,11	16,67	2,35	3,45	2,92	2,75	2,59	2,74	3,26

1. CONTROL ENVIRONMENT

	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
4.1. Is there a code of conduct at the level of institution?	4,37	5,00	4,36	4,43	4,31	4,26	4,79	4,45	4,67	3,61	4,00	4,00	4,33
4.2. Is there a procedure in place to ensure that all employees as well as other interested parties are made familiar with the code of conduct?	4,56	5,00	4,34	4,25	4,08	3,97	4,36	4,26	4,37	3,45	3,63	3,74	4,12
4.3. Is there a procedure in place for monitoring non-compliance with the code of conduct?	3,74	5,00	3,54	3,82	3,75	3,54	3,65	3,78	3,63	3,05	3,22	3,25	3,64
4.4. Are the measures taken in cases of violation of the code?	4,42	4,75	3,81	4,01	4,08	3,75	4,11	4,01	3,69	3,31	3,46	3,45	3,86
4.5. Are there rules in place which define potential conflicts of interest and actions to be taken for resolving these?	4,44	5,00	4,06	3,84	3,92	3,81	3,95	3,87	3,87	3,24	3,48	3,48	3,77
4.6. Did the organization define clear rules on whistleblowing to facilitate reporting of suspicions of fraud, irregularities in financial reporting, contract awards, etc., or irregular handling of equipment, misrepresentation, and false information?	4,30	5,00	4,01	4,09	4,50	4,31	4,28	4,12	3,83	3,45	4,32	3,83	4,05
4.7. Are the managers assured that risk management, internal control and internal audit processes are useful, i.e., contributing significantly to the achievement of goals?	4,42	4,50	4,10	3,69	4,22	4,13	4,05	3,78	3,91	3,79	4,08	3,91	3,82
4.8. Is the oversight body fulfilling its function in terms of overseeing the internal control system independently of the organization's management? (answer only if your PFB has an oversight body)	2,21	4,00	1,82	2,57	4,26	3,51	3,29	2,73	1,99	3,06	3,56	3,04	2,82
4.9. Does the oversight body consist of expert practitioners who have the capacity to perform appropriate oversight of the internal control system critically and thoroughly? (answer only if your PFB has an oversight body)	2,09	5,00	1,90	2,47	4,37	3,77	3,34	2,67	2,03	2,99	3,59	3,04	2,78
4.10. Have you adopted the annual work programmes?	4,49	5,00	4,07	4,71	4,75	4,61	4,68	4,67	3,80	4,66	4,92	4,53	4,64
4.11. Is there a detailed description of the job, authorities, and responsibilities for every position?		4,75	4,85	4,78	4,69	4,90	44,8 4,87	4,79	4,61	4,78	4,89	4,78	4,79
4.12. Are the lines of authority and responsibility defined within the organizational structure?	4,79	4,50	4,69	4,41	4,61	4,78	4,69	4,47	4,43	4,33	4,63	4,45	4,47
4.13. Has the organization's management established and reviewed adequate reporting lines both within the organization and to other organizations?	4,33	4,75	3,90	3,89	4,06	4,36	4,12	3,94	3,67	3,67	3,92	3,76	3,89
4.14. Have you defined the mission and vision of the organization?	4,42	5,00	4,13	4,29	4,83	4,69	4,52	4,34	4,06	4,07	4,81	4,32	4,33
4.15. Have you defined and adopted the strategic goals?	4,30	4,75	3,90	4,02	4,53	4,58	4,24	4,07	4,05	3,73	4,60	4,10	4,08
4.16. Have you adopted an HR policy (strategy)?	4,33	3,00	4,54	3,95	3,97	3,79	4,35	4,01	4,40	3,30	3,88	3,77	3,94

	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
4.17. Are the levels of required skills and competencies for each job specified?	4,89	5,00	4,88	4,72	4,72	4,79	4,78	4,74	4,60	4,54	4,78	4,63	4,71
4.18. Have you devised a general plan and enabled employee access to trainings that are in line with the organization's objectives?	3,93	4,50	3,82	4,15	4,17	4,11	4,18	4,14	3,58	3,60	3,47	3,55	3,98
4.19. Does the organization provide for periodic trainings to ensure that employees are familiar with their duties and competent in the internal control field?	3,51	4,00	3,09	2,91	3,78	3,40	3,17	2,99	3,25	2,82	3,19	3,05	3,01
4.20. Do you regularly assess employees' competencies?	4,70	4,25	4,73	3,52	2,89	3,17	3,29	3,54	4,13	2,47	2,66	2,94	3,38
4.21. Are the job candidates' qualifications, knowledge and previous work experience checked?	4,86	4,75	4,49	4,36	4,25	4,39	4,21	4,36	4,57	3,89	3,94	4,07	4,28
4.22. Is there a system in place for regular performance appraisal of employees?	4,72	3,75	4,73	3,24	3,28	3,32	3,43	3,35	4,36	2,27	2,88	2,99	3,25
4.23. Do you motivate employees (rewards and punishments) in accordance with their performance / output?	4,23	3,50	4,34	3,22	3,75	3,96	3,54	3,35	2,81	2,62	3,61	3,00	3,25
4.24. Does the management assess the workload of staff and reallocate excess workload to ensure that work is performed in accordance with the organization's objectives?	3,91	4,75	3,79	3,40	3,78	3,92	3,64	3,47	3,09	3,17	3,54	3,27	3,42
4.25. Is regular reporting on risk management, internal control, and internal audit mandatory within the organization?	3,95	5,00	3,64	2,98	3,94	3,81	3,46	3,12	3,37	3,10	3,53	3,31	3,17
4.26. Is there an effective mechanism in place for accountability of executives at all levels for their decisions, actions, and results to the entity that appointed them or delegated such authority upon them?	4,16	4,75	3,96	3,61	4,14	4,31	3,90	3,70	3,70	3,72	3,84	3,75	3,71
AVERAGE SCORE	4,19	4,59	3,98	3,82	4,14	4,07	4,03	3,87	3,79	3,49	3,86	3,69	3,83

2. RISK MANAGEMENT

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
5.1. Have you adopted and defined the operational goals?	4,58	5,00	4,04	3,70	4,36	4,50	4,16	3,82	3,85	3,58	4,25	3,87	3,83

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
5.2. Is there a link between strategic and operational goals?	4,28	4,75	3,76	3,51	4,22	4,35	4,02	3,63	3,67	3,48	3,93	3,68	3,64
5.3. Do you set goals which are specific, measurable, attainable, realistic, and time-bound (SMART)?	4,60	4,75	3,94	3,26	4,11	3,99	3,84	3,42	3,72	3,42	3,90	3,66	3,48
5.4. Are the managers and employees made familiar with the organization's strategic and operational goals?	4,56	4,75	4,03	3,82	4,33	4,43	4,20	3,92	3,82	3,70	4,17	3,89	3,91
5.5. Are revenues and expenditures projected and planned in compliance with the set goals of the organization?	4,81	5,00	4,72	4,52	4,67	4,75	4,63	4,55	4,32	4,52	4,69	4,52	4,55
5.6. Does the management define the objectives of external reporting which are in accordance with the relevant laws and regulations, as well as standards and framework of relevant external organizations?	4,14	5,00	3,99	3,83	4,25	4,49	4,18	3,91	3,76	3,80	4,26	3,95	3,92
5.7. Are the organization's objectives aligned with the appropriate laws and regulations?	4,77	5,00	4,69	4,41	4,61	4,79	4,59	4,47	4,34	4,34	4,68	4,46	4,46
5.8. Is the risk register being regularly updated, in accordance with the needs of the organization?	3,50	4,75	3,06	2,44	3,45	3,68	3,34	2,66	3,06	2,71	3,24	2,99	2,75
5.9. Have you identified the risks related to key business processes?	3,86	4,75	3,07	2,64	4,22	3,78	3,62	2,85	3,68	2,98	3,84	3,44	3,01
5.10. Have the risks been identified in relation to the defined goals of the organization?	3,86	4,75	3,21	2,65	4,14	3,76	3,50	2,85	3,66	2,86	3,75	3,35	2,99
5.11. Have the risks been assessed?	3,84	5,00	3,15	2,75	3,86	3,63	3,62	2,92	3,50	2,96	3,82	3,38	3,05
5.12. Is there a practice/in place in place for regularly reporting to the management on risks?	3,53	4,50	3,31	2,68	3,61	3,54	3,51	2,85	3,15	2,99	3,34	3,15	2,93
5.13. Are strategic and operational risks reviewed at management meetings?	3,65	4,50	3,40	2,96	3,92	3,90	3,81	3,12	3,32	3,23	3,71	3,41	3,20
5.14. Do managers make decisions geared to the management of identified risks (response to risks – risk tolerance, avoidance, mitigation, allocation)?	3,58	4,75	3,24	2,86	3,78	3,72	3,51	3,00	3,20	3,16	3,56	3,30	3,08
5.15. Do the risks include the risks of fraud and corruption?	3,77	4,75	3,36	2,97	3,56	3,46	3,69	3,10	3,40	3,18	3,58	3,36	3,17
5.16. Does the organization have mechanisms in place for identifying and responding to risks resulting from changes in the external environment (changes in regulations, market changes, etc.) or internal environment (changes in management, organizational structure)?	3,49	4,50	3,19	2,80	3,75	3,71	3,45	2,95	3,02	2,82	3,42	3,07	2,98
AVERAGE SCORE	4,05	4,78	3,64	3,24	4,05	4,03	3,85	3,38	3,59	3,36	3,88	3,59	3,44

3. CONTROL ACTIVITIES

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. bodies)	IBBs	PEs	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
6.1. Are the business processes accompanied by detailed descriptions, including documentation flow, steps in decision-making, deadlines for job completion and established control mechanisms?	4,14	4,50	3,77	3,14	3,94	4,08	3,95	3,31	4,01	3,32	4,04	3,73	3,42
6.2. Do the written procedures consider the risks relating to specific activities?	3,98	4,75	3,30	2,84	3,81	3,60	3,69	3,01	3,82	3,21	3,84	3,57	3,16
6.3. Do the written procedures contain the descriptions of all internal controls?	4,00	4,75	3,29	2,77	3,72	3,76	3,72	2,96	3,79	3,02	3,79	3,47	3,10
6.4. Have you ensured that the same person cannot perform two or more of the following duties: proposing approving, executing, and recording business changes (which entails appropriate segregation of duties)?	4,37	4,75	4,00	3,28	3,92	4,07	3,88	3,43	4,05	3,45	3,94	3,76	3,52
6.5. If, due to the size of the organization, it is not possible to meet the requirements from the previous question, are there mechanisms in place to compensate for this (e.g., enhanced control or oversight)?	3,50	4,67	3,32	2,92	3,45	3,71	3,59	3,05	3,45	3,20	3,43	3,33	3,12
6.6. Are there procedures and rules in place to ensure information security?	4,37	5,00	4,18	3,79	4,28	4,31	4,22	3,89	4,00	3,59	4,02	3,84	3,87
6.7. Have you ensured that only authorized persons may access material, financial and other resources (data, records)?	4,63	5,00	4,52	4,28	4,53	4,67	4,51	4,34	4,28	4,08	4,31	4,21	4,30
6.8. Did the organization establish control mechanisms within the procedures regulating the processes of procurement, development, and maintenance of technological infrastructure?	3,88	4,50	3,50	3,27	4,08	3,92	3,81	3,38	3,54	3,10	3,52	3,35	3,37
6.9. Are there procedures and rules that guarantee the security of IT systems (passwords are changed regularly, limited access to IT data, data backup, etc.)?	4,37	5,00	4,18	3,78	4,47	4,32	4,37	3,89	4,23	3,61	4,14	3,94	3,91
6.10. Are the competent and responsible persons performing control activities in a timely and competent fashion, in line with the policies and procedures of the organization?	4,05	4,75	3,97	3,59	4,14	4,24	3,92	3,68	3,79	3,57	3,87	3,72	3,69
6.11. Does the organization conduct periodic reviews of control policies and procedures to ensure their continued relevance and improvement?	3,91	4,50	3,48	3,12	3,89	3,94	3,70	3,25	3,27	2,97	3,41	3,19	3,23
6.12. Are corrective actions being taken in the organization to eliminate identified weaknesses in the internal control system?	4,00	4,75	3,26	3,09	4,03	4,01	3,51	3,21	3,50	3,14	3,47	3,34	3,25
AVERAGE SCORES	4,10	4,74	3,73	3,32	4,02	4,05	3,91	3,45	3,81	3,35	3,81	3,62	3,50

4. INFORMATION AND COMMUNICATION

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. Bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. Bodies	IBBs	Pes	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
7.1. Did the management of the organization identify and clearly define the information needs of relevant persons?	4,05	4,75	3,79	3,56	4,11	4,08	4,04	3,65	3,78	3,38	3,80	3,62	3,65
7.2. Does the information and communication system enable monitoring of the realization of set goals and implementation of efficient work supervision in the organization?	4,26	4,75	4,06	3,64	4,22	4,28	4,11	3,75	3,78	3,54	3,87	3,71	3,74
7.3. Is there an effective and efficient system in place for written, electronic and verbal communication, enabling staff to obtain the information they need to accomplish their tasks?	4,33	4,75	4,31	4,14	4,44	4,50	4,43	4,20	4,12	3,91	4,07	4,01	4,15
7.4. Are reports for management regularly prepared (revenues generated, execution of financial and other plans, available funds, liabilities, receivables...)?	4,74	5,00	4,67	4,54	4,72	4,68	4,69	4,58	4,53	4,48	4,64	4,55	4,57
7.5. Do the managers receive the information on available funds for the realization of activities within their scope of competence?	4,72	5,00	4,70	4,39	4,64	4,56	4,58	4,44	4,51	4,43	4,47	4,47	4,45
7.6. Is there regular communication between management and the supervisory body (board of directors/supervisory board), to ensure that both parties have adequate information to perform their roles? (to be answered by public funds beneficiaries that have a supervisory body)	2,44	5,00	2,58	4,05	4,71	4,49	4,52	4,09	2,90	4,37	4,58	4,25	4,13
7.7. Are transparency and timely disclosure of information to external stakeholders maintained in the organization (key documents published on the website, etc.)?	4,72	4,50	4,64	4,36	4,69	4,64	4,61	4,42	4,54	4,24	4,49	4,40	4,41
7.8. Does the leadership of the organization receive and review information from external sources concerning new trends or circumstances, etc., that could significantly impact the achievement of the organization's goals?	4,23	4,75	4,25	3,88	4,50	4,49	4,18	3,96	3,95	3,89	4,10	3,98	3,97
7.9. Are existing procedures and methods of external communication analysed?	3,95	4,25	3,69	3,50	3,97	3,96	3,86	3,58	3,38	3,40	3,57	3,45	3,55
AVERAGE SCORE	4,16	4,75	4,11	4,01	4,45	4,41	4,34	4,07	3,94	3,96	4,18	4,05	4,07

5. MONITORING (SUPERVISION) AND EVALUATION

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with constituent admin. Bodies	MSIO	DBBs (other DBBs - without ministries and their constituent admin. Bodies)	IBBs	Pes	Other PFBs, (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs	IBBs	OTHER PFBs	LOCAL – TOTAL	
8.1. Has the top management implemented a monitoring and information system that enables them to get regular reports on the functioning of the financial management and control system for which they are accountable?	3,91	5,00	3,55	2,93	3,81	3,64	3,61	3,08	3,46	3,12	3,48	3,32	3,15
8.2. Is there a reporting structure enabling objectivity and independence of internal audit?	3,67	5,00	2,63	2,22	3,89	3,22	2,74	2,39	2,92	2,52	2,59	2,64	2,46
8.3. Is the achievement of the organization's objectives regularly monitored?	4,40	5,00	4,24	3,91	4,56	4,44	4,22	3,99	3,88	4,08	4,33	4,11	4,03
8.4. Are the causes of any deviations from the established goals of the organization analysed?	4,09	5,00	4,07	3,65	4,39	4,32	4,07	3,75	3,58	3,81	4,14	3,87	3,78
8.5. Does the manager accept and implement internal audit recommendations?	4,05	4,75	2,63	2,52	3,61	2,99	2,72	2,62	3,05	3,35	2,81	3,09	2,75
8.6. Are external audit recommendations implemented?	4,37	5,00	3,58	3,30	4,56	4,08	4,06	3,46	4,58	4,23	4,54	4,42	3,72
8.7. Is the implementation of recommendations issued by external and internal auditors monitored?	4,37	5,00	3,36	3,15	4,39	4,24	3,89	3,32	4,23	4,13	4,31	4,22	3,56
8.8. Are the internal and external audit reports available to the staff working in the areas covered by the reports?	4,40	4,75	3,39	3,12	4,64	4,00	3,68	3,28	4,36	4,03	4,29	4,20	3,53
8.9. Is there a procedure in place enabling staff to inform the management about identified weaknesses in the internal control system?	3,33	4,50	2,85	2,70	3,28	3,24	3,03	2,79	3,18	2,93	3,09	3,04	2,86
8.10. Is the realization of activities from the action plan for the establishment and development of financial management and control monitored?	3,48	4,50	3,07	2,42	3,56	3,54	3,11	2,60	3,44	2,75	3,30	3,12	2,76
8.11. Are any measures undertaken in case of failure to perform the activities referred to in the action plan?	3,16	4,00	2,72	2,29	3,07	2,76	2,84	2,42	3,30	2,30	2,86	2,76	2,52
AVERAGE SCORE	3,16	4,77	3,28	2,93	3,98	3,68	3,45	3,06	3,63	3,39	3,61	3,53	3,19

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

MANAGEMENT OF IRREGULARITIES			
PFB		Did you have any confirmed suspicion of irregularities?	Are confirmed irregularities being addressed? (only organizations that have confirmed suspicions of irregularities shall answer this question)
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	6,98	50,00
	MSIO	0,00	/
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	10,45	76,92
	IBBs	4,49	39,20
	PEs	25,00	75,00
	OTHER PFBs (excluding PEs)	11,11	71,43
	USERS OF NHIF FUNDS	7,65	67,65
	CENTRAL LEVEL – TOTAL	5,68	45,55
LOCAL LEVEL	DBBs	12,87	75,68
	IBBs	8,59	70,00
	OTHER PFBs	9,05	63,64
	LOCAL LEVEL - TOTAL	9,80	69,42
TOTAL – ALL PFBs		6,79	51,29

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

Confirmed irregularities were addressed/resolved: (to be answered only by the organizations concerned)				
PFB		Internally	Externally	Both internally and externally
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	40,00	0,00	60,00
	MSIO	/	/	/
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	63,64	0,00	36,36
	IBBs	68,71	0,68	30,61
	PEs	62,50	0,00	37,50
	OTHER PFBs (excluding PEs)	90,00	0,00	10,00
	USERS OF NHIF FUNDS	68,97	0,00	31,03
	CENTRAL LEVEL – TOTAL	68,57	0,48	30,95
LOCAL LEVEL	DBBs	83,33	0,00	16,67
	IBBs	85,71	3,57	10,71
	OTHER PFBs	64,52	0,00	35,48
	LOCAL LEVEL - TOTAL	77,53	1,12	21,35
TOTAL – ALL PFBs		71,24	0,67	28,09

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

Check the statements that are generally applicable to your organization due to the pandemic:							
PFB		Objectives were achieved to a lesser extent	Objectives were not achieved within the planned time frame	The workload has increased	The level of controls was reduced	We adjusted the work plans to the situation	None of the above
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	9,30	4,65	20,93	11,63	90,70	4,65
	MSIO	0,00	25,00	25,00	0,00	100,00	0,00
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies	8,96	7,46	25,37	1,49	74,63	7,46
	IBBs	7,24	3,82	23,19	1,54	89,41	3,69
	PEs	30,56	13,89	5,56	8,33	91,67	2,78
	OTHER PFBs (excluding PEs)	19,44	11,11	11,11	5,56	86,11	5,56
	USERS OF NHIF FUNDS	32,35	12,35	52,94	6,47	70,00	2,94
CENTRAL LEVEL – TOTAL		10,51	5,25	25,11	2,49	87,10	3,82
LOCAL LEVEL	DBBs	22,81	9,36	14,04	9,94	83,04	1,75
	IBBs	21,31	3,44	3,44	0,69	89,69	1,72
	OTHER PFBs	28,45	8,19	12,07	5,17	81,03	4,31
	LOCAL LEVEL - TOTAL		24,06	6,48	8,93	4,47	85,16
TOTAL – ALL PFBs		14,16	5,59	20,75	3,03	86,58	3,49

Table 5. Overview of organizations’ experiences with work from home (in %)

What are your organization’s experiences with work from home?				
PFB		Positive	Negative	Not applicable (organizing work from home was not possible)
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	65,12	13,95	20,93
	MSIO	75,00	0,00	25,00
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies	62,69	8,96	28,36
	IBBs	73,59	13,94	12,47
	PEs	66,67	8,33	25,00
	OTHER PFBs (excluding PEs)	61,11	12,50	26,39
	USERS OF NHIF FUNDS	30,59	3,53	65,88
CENTRAL LEVEL – TOTAL		68,52	12,63	18,84
LOCAL LEVEL	DBBs	60,23	15,79	23,98
	IBBs	70,45	6,19	23,37
	OTHER PFBs	51,29	8,62	40,09
	LOCAL LEVEL - TOTAL		61,53	9,37
TOTAL – ALL PFBs		66,64	11,75	21,61

Table 6. Overview of use of methodological tools for the establishment and further development of the FMC system (in %)

Are you using any of the listed methodological tools available on the website of the Ministry of Finance - Central Harmonization Unit for the establishment and further development of the FMC system?							
PFBs		Irregularity Management Guidelines	Risk Management Guidelines	Managerial Accountability Guidelines	Delegation System Guidelines	FMC Guidelines for Small Public Funds Beneficiaries	None of the above
CENTRAL LEVEL	MINISTRIES with constituent administrative bodies	34,88	67,44	34,88	20,93	13,95	23,26
	MSIO	100,00	100,00	75,00	75,00	0,00	0,00
	DBBs (other DBBs – excluding ministries and their constituent admin. bodies)	25,37	37,31	26,87	11,94	34,33	34,33
	IBBs	19,10	30,29	15,68	6,50	40,75	39,54
	PEs	44,44	66,67	38,89	27,78	19,44	25,00
	OTHER PFBs (excluding PEs)	34,72	59,72	33,33	25,00	26,39	26,39
	USERS OF NHIF FUNDS	30,59	41,76	22,94	12,35	15,29	41,18
	CENTRAL LEVEL – TOTAL	21,97	34,39	18,42	8,81	36,57	38,27
LOCAL LEVEL	DBBs	35,67	49,71	21,05	13,45	15,79	35,67
	IBBs	12,71	25,09	11,34	5,50	40,21	39,86
	OTHER PFBs	26,72	50,86	23,28	10,34	27,59	24,14
	LOCAL LEVEL - TOTAL	23,05	39,77	17,72	9,08	29,97	33,57
TOTAL – ALL PFBs		22,27	35,57	18,23	8,88	34,79	37,01

Annex 4. Overview of PFBs that established internal audit

CENTRAL GOVERNMENT TIER

Table 1. Number of established internal audits, systematized and filled internal auditor positions in public funds beneficiary institutions at the central level in 2020

PFB		Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
Central level	Ministries with constituent bodies	33	22 ³⁸	20	100	63
	MSIO	4	4	4	37	32
	Other DBBs	57	21	15	58	54
	IBBs ³⁹	674	20	9	14	13
	PEs at central level	33	26	22	112	84
	Other PFBs	56	34	20	69	48
	Users o NHIF funds	110	51	28	80	51
	Total	967	178	118	470	345

IA is normatively and functionally established in all MSIO; 37 internal auditor jobs are systematized and 32 are filled. Of the remaining public funds beneficiary institutions at the central level, in 152 the IA function is normatively established and in 94 functionally; 333 internal auditor positions have been systematized and 250 filled.

Based on the data on PFBs at central level, we can see that there has been a 20% increase in the number of normatively established audits, a 4% increase in the number of functionally established audits, and a 13% increase in the number of systematized IA positions, as well as a 11% increase in the number of internal auditor positions filled in 2020 relative to 2019. This growth was mainly due to the growth in the NHIF fund users' category, i.e., public healthcare facilities, other direct budget beneficiaries and other PFBs.

³⁸ This number includes normatively established IAs in 16 ministries (according to the annual reports submitted) and separate IAs in four administrations (Treasury Administration, Tax Administration and Customs Administration in the Finance Ministry and Agrarian Payments Administration in the Ministry of Agriculture, Forestry and Water Management)

³⁹ These are indirect budget beneficiaries (IBBs) at the central level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is performed by the direct budget beneficiary, pursuant to Art. 5(3) of the IA Rulebook.

MINISTRIES

The internal audit function has been normatively established in 18 of a total of 21 ministries. Three new ministries were established in October 2020 under the Law on Ministries (RS Official Gazette No. 128 of October 26, 2020): the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography and the Ministry of Rural Welfare, and for that reason the IA function in the newly formed ministries was not normatively established. All ministries submitted Annual Reports. A total of 64 positions were systematized in the ministries, and 43 internal auditor positions are filled, which is at the same level as last year.

Table 2. IA function, by ministry, in 2020

Ministry name	Normative IA	Functional IA	Number of auditors	Ministry has IBBs
Ministry of Human and Minority Rights	No	No	0	No ⁴⁰
Ministry of Family Welfare and Demography	No	No	0	No
Ministry of Rural Welfare	No	No	0	No
Ministry of Environmental Protection	Yes	No	0	No
Ministry of Foreign Affairs	Yes	No	0	No
Ministry of Youth and Sports	Yes (it is not in accordance with the IA Rulebook)	Yes	1	No
Ministry of European Integration	Yes	Yes	1	No
Ministry of Mining and Energy	Yes	Yes	1	No
Ministry of Economy	Yes	Yes	1	Yes
Ministry of Trade, Tourism and Telecommunications	Yes	Yes	1	No
Ministry of Agriculture, Forestry and Water Management	Yes	Yes	2	No
Ministry of Construction, Transport and Infrastructure	Yes	Yes	2	No
Ministry of Public Administration and Local Self-Government	Yes	Yes	2	No

⁴⁰ The ministry has no indirect budget beneficiaries under its responsibility.

Ministry name	Normative IA	Functional IA	Number of auditors	Ministry has IBBs
Ministry of Education, Science and Technological Development	Yes	Yes	2	Yes
Ministry of Labour, Employment, Veteran and Social Affairs	Yes	Yes	3	Yes
Ministry of Health	Yes	Yes	3	n/a
Ministry of Finance	Yes	Yes	3	n/a
Ministry of Defense	Yes	Yes	4	Yes
Ministry of Justice	Yes	Yes	4	Yes
Ministry of Culture and Information	Yes	Yes	4	Yes
Ministry of the Interior	Yes	Yes	9	Yes

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

A functional IA, i.e., an internal audit that produced at least one audit report in the reporting period, was established in 17 ministries. In 14 ministries, the internal audit unit does not employ the statutory minimum of three internal auditors. The reasons for this, as reported by ministries, are employment restrictions as part of the austerity measures in Serbia, low salaries in the public sector relative to the private sector, as well as natural staff attrition rate, resulting in the departure of internal auditors from the public sector and the impossibility to recruit new ones. Compared to the data of the previous two years, there is a noticeable stagnation in the development of internal audit in the category of ministries with constituent administrative bodies.

LOCAL GOVERNMENT LEVEL

Table 3. Number of internal audits in place, systematized and filled internal auditor positions at PFBs at the local government level in 2020

PFB		Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
Local level	LGU DBBs	115	76	41	137	92
	LGU IBBs ⁴¹	107	1	0	0	0
	Other PFBs (PUCs and similar) founded by the LGU	139	69	43	107	89
	Total	361	146	84	244	181

According to the 115 reports received from the Autonomous Province of Vojvodina, the City of Belgrade, towns and municipalities, 76 direct beneficiaries of local government funds normatively established internal audit, 41 direct beneficiaries of local government funds functionally established the internal audit function that has produced at least one audit report in the reporting period. These PFBs systematized a total of 137 positions for internal auditors, of which 92 are filled.

The data presented herein, on the number of PFBs at the local government level – without indirect budget beneficiaries – reveal a 29% increase in the number of normatively established audits, a 9% increase in the number of systematized jobs and a 4% decline in the number of filled internal auditor positions in 2020 relative to 2019. The main reasons for the decline in the number of internal auditors are poor salaries of internal auditors relative to the private sector, natural staff attrition, as well as a lack of qualified new staff.

As shown in Table 4, the Autonomous Province of Vojvodina has established a normative and functional internal audit in accordance with the IA Rulebook. As regards the cities, four out of 28 cities failed to submit their annual reports for 2020. Out of those that have sent their annual reports, 12 cities failed to normatively establish internal audit in accordance with the IA Rulebook, i.e., an internal audit unit with a minimum of three internal auditor positions included in the staffing plan. Furthermore, 22 of 28 cities in total does not have an internal audit unit with a minimum of three filled internal auditor positions.

⁴¹ Only shows the number of IBBs at the local government level that independently established the internal audit function and not all other IBBs in which the internal audit function is performed by the responsible direct budget beneficiary pursuant to Article 6, para. 2 and 4 of the IA Rulebook.

Table 4. IA function in key PFBs at local level in 2020

PFB	Normative IA	Functional IA	Number of auditors	PFB includes IBBs
AP Vojvodina	Yes	Yes	4	Yes
City of Belgrade	Yes	Yes	16	Yes
Novi Sad	Yes	Yes	4	Yes
Niš	Yes	Yes	2	Yes
Subotica	Yes (not compliant with the IA Rulebook)	Yes	2	Yes
Kragujevac	Yes	Yes	4	Yes
Novi Pazar	Yes	Yes	4	Yes
Kruševac	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Vranje	Yes (not compliant with the IA Rulebook)	Yes	2	Yes
Kikinda	Yes (not compliant with the IA Rulebook)	No	1	No
Pančevo	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Sremska Mitrovica	Yes (not compliant with the IA Rulebook)	No	2	-
Loznica	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Pirot	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Požarevac	Yes	Yes	1	Yes
Prokuplje	Yes	Yes	3	Yes
Jagodina	No	No	0	-
Užice	Yes	Yes	5	Yes
Zrenjanin	Yes	Yes	2	Yes
Bor	Yes (not compliant with the IA Rulebook)	No	0	No
Valjevo	Yes	Yes	2	Yes

PFB	Normative IA	Functional IA	Number of auditors	PFB includes IBBs
Smederevo	Yes (not compliant with the IA Rulebook)	Yes	1	Yes
Čačak	Yes	No	0	No
Leskovac	Yes (not compliant with the IA Rulebook)	No	0	No
Vršac	Yes (not compliant with the IA Rulebook)	No	0	No
Šabac	n/a ⁴²			
Zaječar				
Kraljevo				
Sombor				

NUMBER OF AUDITORS IN PFBs

Table 5 shows the total number of PFBs, at the level of the entire public sector, that have a functionally established IA function and at least one filled internal auditor position, which amounts to 180 PFBs.⁴³ Expressed in percentages, 62% of PFBs that have established the IA function have one filled internal auditor position, 13% two filled internal auditor positions, and 25% three or more filled internal auditor positions. Compared to the previous year, we can see a trend of slight expansion of IA units, as the percentage of IAs with three or more internal auditors in the unit has increased.

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

PFB		1 auditor	2 auditors	3 or more auditors
Central level	Ministries with constituent administrative bodies	5	4	11
	MSIO	0	0	3
	Other DBBs	8	1	3
	IBBs	8	0	0
	PEs at central level	9	5	7
	Other PFBs	13	1	2
	Users of NHIF funds	19	2	2
	Total	62	13	28
Local level	LSG DBBs	26	6	7

⁴² The listed cities failed to submit their Annual Report for 2020.

⁴³ A total of 202 PFBs have a functional IA. When, from this number, we subtract the number of PFBs in which other PFBs are performing IA tasks under an agreement, as well as the number of PFBs that have outsourced IA under a service agreement, we get 180 PFBs.

PFB		1 auditor	2 auditors	3 or more auditors
	LGU IBBs	0	0	0
	Other PFBs (PUCs and similar) funded by the local government	23	5	10
	Total	49	11	17
Total in Serbia		111	24	45
Total PFBs with filled IA positions		180		

Annex 5. Form for the annual report on audits and internal audit activities

(header of the public funds beneficiary)

ANNUAL REPORT ON AUDITS AND INTERNAL AUDIT ACTIVITIES

for 2020

GENERAL SECTION

1. GENERAL INFORMATION ON THE PUBLIC FUNDS BENEFICIARY:	
Manager of PFB (job title, name and surname):	
Name of the internal audit unit / Name and surname of internal auditor ⁴⁴ :	
Head of internal audit unit (job title, name and surname):	
Phone:	e-mail:
Public funds beneficiary's unique identifier (PFB ID) in the List of PFBs:	
Total amount of planned expenses and outlays in the reporting period (for the PFB, in RSD):	
Total number of staff in positions envisaged in the staffing plan (internal systematization act of the PFB), as on 31 December:	
Total number of positions filled, as on 31 December:	
2. INFORMATION ON THE INTERNAL AUDIT UNIT AND INTERNAL AUDITORS	
2.1. Internal audit is normatively established ⁴⁵ :	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.2. If YES, state the name, number and date of the internal act:	
2.3. Specify the number of participants in the training for acquiring the professional title of certified internal auditor in the public: ⁴⁶	
<ul style="list-style-type: none"> - theoretical - theoretical and practical 	

⁴⁴ Only if the internal audit unit is not in place

⁴⁵ For multiple choice questions, please select a single answer by checking the appropriate box

⁴⁶ Including attendees that started the training before the reporting period and are still in the training process.

<p>2.4. The following type of internal audit is in place:</p> <p>1) <input type="checkbox"/> independent internal audit unit</p> <p>2) <input type="checkbox"/> internal auditor</p> <p>3) <input type="checkbox"/> joint internal audit unit for several PFBs</p> <p>4) <input type="checkbox"/> agreement with another PFB for the provision of internal audit services</p> <p>In case an agreement has been signed with another PFB for establishing a joint internal audit unit, please state the name of the PFBs establishing a joint unit, as well as the number and date of agreement:</p> <p>In case an agreement has been signed with another PFB for the provision of internal audit services, please state the name of the PFB providing these services, as well as the number and date of agreement:</p>				
2.5. Does the internal audit unit/internal auditor directly and exclusively report to the PFB manager, from the organizational and functional aspect?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.6. If NO, state to whom it reports and the reasons why:				
2.7. If the PFB is a direct budget beneficiary responsible for indirect budget beneficiaries, does the internal audit unit, based on the risk assessment and in accordance with its work plan, discharge the internal audit function in the indirect budget beneficiaries under its responsibility? ⁴⁷				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.8. If NO, state the reason:				
2.9. Has the head of the internal audit unit been appointed?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.10. If YES, does the appointed head of internal audit meet the requirements with regard to professional experience prescribed under Art. 22 of the Rulebook on common criteria for the implementation of and standards and methodological instructions for internal audit activity and reporting in the public sector (RS Official Gazette No. 99/2011 and 106/2013)?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.11. Staffing and pay grades for the internal audit unit/internal auditor positions (enter in numerical format):				
Job title/post	Number of internal auditor positions systematized (i.e. envisaged in the staffing plan)	Filled posts	Job coefficient	Taxable wage base (in December)
1	2	3	4	5
Attached to this Report, please submit a list with the names, surnames, job titles and number of certificates awarded to certified internal auditors in the public sector ⁴⁸ , for all internal audit employees in the reporting period – in the annex to this Report.				
2.12. Is performing internal audits the only task of internal audit?				Yes <input type="checkbox"/> No <input type="checkbox"/>

⁴⁷ To be completed only by direct budget beneficiaries that are responsible for indirect budget beneficiaries.

⁴⁸ The filing number of the certificate awarded to a certified public sector internal auditor is to be entered only for staff engaged in internal audit-related work who have acquired this title in line with the Rulebook on the requirements and procedure for taking the exam for acquiring the title of certified internal auditor in the public sector (RS Official Gazette No 9/2014).

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

Performance of internal audit	
3.15. Was the internal audit strategic plan developed based on risk assessment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.16. If NO, state the reason:	
3.17. Was the internal audit strategic plan approved by the manager of the PFB in line with Art. 24 of the Rulebook on common criteria for the implementation of and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.18. If NO, state the reason:	
3.19. Is the Internal Audit Strategic Plan available to all staff and executives (forwarded individually, published in the organization's internal gazette, on its intranet, or website)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.20. Is the Annual Internal Audit Plan developed based on the internal audit strategic plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.21. If NO, state the reason:	
3.22. Is the annual internal audit plan approved by the public funds beneficiary in accordance with Art. 25 of the Rulebook on common criteria for implementing and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.23. If NO, state the reason:	
3.24. Is the Annual Internal Audit Plan available to all staff and executives (forwarded individually, published in the organization's internal gazette, on its intranet, or website)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Execution of the annual internal audit plan ⁴⁹	
3.25. Total number of planned audits according to the annual plan:	
3.26. Total number of assurance services ("on demand") planned subsequently:	
3.27. Total number of assurance services performed for which a final audit report was drawn up:	
3.28. Reasons for failure to implement the planned number of audit (state the reasons):	
3.29. Percentage of planned auditor days for delivering consulting services relative to the total number of planned auditor days according to the annual plan	
3.30. Percentage of auditor days planned subsequently ("on demand") for the performance of consulting services relative to the total number of planned auditor days according to the annual plan	
3.31. Percentage of realized auditor days relative to the planned number of auditor days for consulting services:	
3.32. Reasons for failure to implement planned consulting services (state the reasons):	
3.33. Are the audit reports and consulting services reports regularly submitted to the PFB manager?	Yes <input type="checkbox"/> No <input type="checkbox"/>

⁴⁹ This refers to the year for which this report is submitted.

3.34. 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 for implementing the recommendations and deadlines?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.35. If NO, state the reason:	
3.36. 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"/>
3.37. If NO, state the reason:	
3.38. Number of follow-up assurance services performed, out of the total number planned:	
3.39. Number of follow-up audits on recommendations from the previous reporting period:	
Number of recommendations made, and number of recommendations implemented in the reporting period	
3.40. Number of recommendations made in audit reports ⁵⁰ :	
3.41. Number of audit recommendations not accepted:	
3.42. Number of implemented recommendations:	
3.43. Number of recommendations not implemented past the implementation deadline:	
3.44. Number of recommendations not implemented whose implementation deadline has not yet expired:	
3.45. If there are any recommendations that were not implemented past the deadline, state the reason:	
Implementation of recommendations from the previous reporting period:	
3.46. Percentage of implemented recommendations relative to the total number of recommendations made in the previous period, in this reporting period:	
3.47. If there are any recommendations from the previous period not implemented, whose implementation deadline has expired, in this reporting period, state the reasons:	
Audit committee	
3.48. Has an audit committee been established as an advisory body on internal audit issues?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.49. Is the audit committee composed of independent members, with appropriate professional qualifications?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.50. Does the audit committee examine and advise on the strategic and annual internal audit plan before approving the plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.51. Does the audit committee review and provide advice on the implementation of the annual internal audit plan?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.52. Specify the terms of reference of the audit committee:	
Continuous professional development of certified internal auditors⁵¹	

⁵⁰ The total number of recommendations made in the reporting period must be equal to the sum of recommendations from all audits performed in the reporting period, presented in the Special Section: Overview of Performed Audits.

⁵¹ To be completed by PFBs that have certified public internal auditors on their staff.

3.53. Does the PFB's internal audit keep records on professional training of certified internal auditors in accordance with Article 10, paragraph 2 of the Rulebook on professional training of certified internal auditors in the public sector (RS Official Gazette No. 15/2019)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Assessment of the performance of the internal audit unit: ⁵²	
3.54. Has the head of internal audit established a programme for assessing the performance of the internal audit unit?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.55. Does the head of internal audit carry out internal reviews (continuous reviews and period self-assessments) pursuant to Art. 19(2) of the Rulebook on common criteria for the implementation of and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.56. If NO, state the reason:	
3.57. Was an external performance review carried out in the PFB in the last five years in accordance with Art. 19, para. 3 of the Rulebook on common criteria for the implementation of and standards and methodological guidelines for internal audit activity and reporting in the public sector (RS Official Gazette No 99/2011 and 106/2013)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Recommendations from the Consolidated Annual Report for the previous year	
3.58. Are you acquainted with the content of the recommendations made to public funds beneficiaries in the Consolidated Annual Report for the previous year (pp. 74–78)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.59. Are you implementing the recommendations in the field of internal audit from the Consolidated Annual Report for the previous year that concern your organization?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.60. If NO, state the reason:	
Overview of audits and consulting services performed	
An overview of audits and consulting services performed should be presented in the SPECIAL SECTION	
4. PROPOSALS FOR INTERNAL AUDIT DEVELOPMENT	
4.1. Briefly state which activities you planned or implemented for the development of internal audit in your organization:	
4.2. Your proposals for the development and improvement of internal audit (general):	
REMARKS:	
5. Internal audit opinion on the status of financial management and control in the PFB	

⁵² To be completed by PFBs what have an internal audit unit in place.

5.1. State the internal audit opinion on the level of financial management and control in the reporting period based on audits performed (enter up to three key findings):

6. FUNCTIONING OF THE SYSTEM IN CONDITIONS OF THE COVID-19 PANDEMIC

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

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

6.2. What are the experiences of internal audit related to working from home?

- Positive
- Negative
- Not applicable (work from home could not be organized)

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

Address of the public funds beneficiary:

(signature of the head of the internal audit/internal auditor)⁵³

(signature of the manager of the public funds beneficiary and stamp)

⁵³ Do not fill out in electronic form

SPECIAL SECTION

1. OVERVIEW OF AUDITS PERFORMED⁵⁴								
State all audits performed in the reporting period along with the number of recommendations by type of recommendation and basic recommendations for each audit.								
Audit number date and name:								
Number of recommendations by type of recommendation ⁵⁵ :								
1	2	3	4	5	6	7	8	Total
Recommendations ⁵⁶								
Audit number date and name:								
Number of recommendations by type of recommendation								
1	2	3	4	5	6	7	8	Total
Recommendations:								
Audit number, date, and name:								
Number of recommendations by type of recommendation:								
1	2	3	4	5	6	7	8	Total
Recommendations:								

⁵⁴ Table 2 can be copy-pasted, as needed, to include all audits performed.

⁵⁵ Enter the number of recommendations by type of recommendation (areas): **1- Internal rules and procedures; 2 – Planning; 3 – Income and revenues; 4 – Public procurements and contracts; 5 – Payroll; 6 – Payments and transfer of funds; 7 – Accounting and financial reporting; 8 – Information systems.**

⁵⁶ Recommendations from the audit summary report.

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

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

Audit number date and name:

Number of recommendations by type of recommendation:

1	2	3	4	5	6	7	8	Total

Recommendations

Audit number date and name:

Number of recommendations by type of recommendation

1	2	3	4	5	6	7	8	Total

Recommendations:

Audit number date and name:

Number of recommendations by type of recommendation:

1	2	3	4	5	6	7	8	Total

Recommendations:

3. OVERVIEW OF CONSULTING SERVICES PROVIDED ⁵⁷

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

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

⁵⁷ New rows can be added to Table 4 according to the needed, i.e., number of consulting services performed.

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

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

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

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

Brief description from the consulting services report:

5. LIST OF INTERNAL AUDIT STAFF (new table cells can be added if necessary)⁵⁸				
No.	Name	Surname	Job title	Number of certificates of certified public sector internal auditors
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				

⁵⁸ Add new rows to Table 5 according to needs, i.e., the number of internal audit employees.

Annex 6. Statement on Internal Control

Name of public funds beneficiary

Statement on Internal Control for *year*

Pursuant to Article 20 of the Rulebook on common criteria for implementing and standards and methodological guidelines for internal audit activity and reporting in the public sector, and based on the internal control self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *year* of *name of PFB*, and internal audit report of the State Audit Institution or external audit for *year*

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

hereby state that I have acquired reasonable assurances that the financial management and control system established in *name of PFB* is compliant with international internal control standards, that the internal control system is efficient and effective and that the organization is managed according to sound financial management principles.

This Statement is an integral part of the Annual Report on the Financial Management and Control System for *year name of PFB, file number and date*.

In *city*,
date

(signature of the manager
of the public funds beneficiary)
name and surname of PFB manager
title of PFB manager

Annex 7. Recommendations from the EC Serbia Report 2020

The CHU regularly monitors the implementation of recommendations made by the EC in the process of accession in the context of Chapter 32 – Financial control. The most important recommendations for 2020 are as follows:

Recommendation 1	Prepare and adopt a <i>new medium-term approach on PIFC with specific focus on the implementation of managerial accountability, link it to the new Public Financial Management Reform (PFMR) Programme and Public Administration Reform (PAR) Strategy, ensure their efficient coordination, monitoring and reporting, whilst also ensuring coherence with the Law on Planning System (LPS).</i>
Status	Implemented
Follow-up	<p>A new medium-term approach on PIFC, covering the 2021-2025 period, has been defined and elaborated in agreement with all relevant stakeholders (MPALS, MFIN, PPS, EU Delegation, EC, SIGMA) and in compliance with the LPS, which requires a hierarchy of planning documents. The PIFC is now included at the strategic level as a specific objective in the new PFMR Programme adopted by the Government on 24 June 2021 and includes 4 measures with mapped links to other parts of the PFMR, and other planning documents. The further development of the PIFC as a specific objective in the PFMR now focuses on improving implementation. Measures envisaged under this specific objective concern the improvement of the FMC and IA system in public sector institutions, enhanced public internal control monitoring (using software) and modernization of the PIFC training system. The improvement of managerial accountability is included in the PAR Strategy, under Specific Objective 6: <i>Increased level of accountability and transparency</i>, through two measures that envisage activities focusing on changing the regulatory and methodological framework as well as supporting implementation. Additionally, as part of two programmes of the PAR Strategy, segments are being further developed that were traditionally part of the PIFC Strategy: Programme for the Reform of the Local Self-Government System in Serbia with related AP for the 2021–2023 period – with specific activities that focus on supporting internal control in LSGs, and the Programme for the Improvement of Public Policy and Regulatory Reform Management for the 2021–2025 period with related AP offering special focus on providing further support to the establishment of analytical units.</p> <p><i>Coordination, monitoring, reporting:</i> The new generation of planning documents prepared in accordance with the LPS contains mechanisms for monitoring the implementation of public policies and reporting on the performance thereof. Internal technical control of the monitoring of the implementation of planning documents will be performed through the JIS (Unified Information System for planning, monitoring implementation, public policy coordination and reporting) for all planning documents, including the PFMR Programme and the PAR Strategy. For each activity and indicator, the document lists the institution responsible for implementation and monitoring. As the PAR Strategy 2020–2030 is a comprehensive</p>

	<p>document, the monitoring of and reporting on its implementation will include all elements of the PAR. The LPS prescribes reporting deadlines, so reporting on PIFC will be part of the report on PFMR report, which will be integrated into the report on the implementation of the PAR Strategy.</p> <p>Political oversight will be exercised through the Public Administration Reform Council, which is a body of the Government, administrative oversight will be performed by an inter-ministerial group, while technical coordination will be performed by MPALS.</p> <p>The specific nature of the PIFC, as a thematic area, and the coordination and cooperation between the MFIN and MPALS are highlighted in the Public Administration Reform Section dealing with reporting and monitoring arrangements. In addition, bearing in mind the coherence between the PAR Strategy for 2021–2030 and the Public Financial Management (PFMR) Programme for 2021–2025, as well as the reporting arrangements provided for in the LPS, progress reports on the PFMR Programme 2021–2025 will be integrated into the progress reports on the PAR Strategy 2021–2030.</p> <p>As regards the PFMR Programme 2021–2025, the drafting of the progress report will be coordinated by the PFMR Technical Secretariat, based in the MFIN – International Cooperation and European Integration Department, and will include all members of the PFMR WG. Once drafted, each report will be formally adopted by the Supervisory Board, which will consist of the Minister of Finance, state secretaries, the SAI president, the supreme state auditor, the chairman of the parliamentary finance committee, the state budget representative and the public spending control body. Finally, each report will then be approved by the Government of Serbia.</p> <p>In addition, Article 31(1) of the LPS stipulates that: “public policy documents shall be drafted in accordance with the results of <i>ex-ante</i> and <i>ex-post</i> impact analyses of applicable public policy documents and regulations in this area”, for the purpose of setting the future focus of the reform.</p>
Recommendation 2	Ensure the <i>adoption and implementation of the guidelines developed on the basis of lessons learned from 2019 pilot projects on managerial accountability</i>
Status	Implementation is underway
Follow-up	<p>The highest rate of compliance with FMC guidelines was identified in the MSIOs, PEs and ministries with constituent administrative bodies groups. The group of PFBs that stated in their annual reports that they have the lowest rate of implementation of CHU guidelines, are IBBs at both central and local level. Of all the CHU methodological materials, the Risk Management Guidelines and the FMC Guidelines for Small PFBs were the ones that were used most by all PFB groups (on average mostly for the establishment of the FMC system), while the Delegation System Guidelines were the least used.</p>

	<p>The acceptance and implementation of the guidelines developed under the Twinning Project is an ongoing process which is/will be supported by a campaign to raise awareness of managers and employees through trainings regularly conducted by the CHU, as well as through the training programme the General Training Programme for Civil Servants adopted by the NAPA for 2021.</p> <p>Additionally, the CHU is promoting the use of the developed materials which are available for download to all PFBs on the MFIN website/CHU page:</p> <ul style="list-style-type: none"> - through the FMC quality reviews; - by sending notifications to PFBs; as well as - through PFB annual reporting, which covers issues related to the use of these materials, which will ultimately raise awareness about the need to apply these. <p>Considering that the latest PAR Strategy is expected to strongly incentivize managerial accountability, the guidelines will change accordingly (hence, they are of a temporary character) and will be used as a template and starting point.</p> <p>Specifically related to the Performance Management Guidelines, these Guidelines will be genuinely put into practice only when the analytical units are fully established (the obligation to establish these units has already been introduced in the amendments to the Regulation on Principles for the Internal Organization and Systematization of Posts in Ministries, Special Organizations and Government Services of 19 March 2021, and further activities related to the support of their establishment are planned in cooperation with the PPS, HRMS and NAPA, as well as under the Programme for Improving Public Policy Management and Regulatory Reform.</p>
Recommendation 3	Invest further efforts to fully <i>embed managerial accountability</i> in the administrative culture of the public sector
Status	Implementation is underway
Follow-up	Specific Objective 6: <i>Increased accountability and transparency</i> of the PAR Strategy, envisages two measures that are aimed at improving managerial accountability. The first will be to set up systemic solutions, while the second measure is specifically dedicated to improving performance management. Activities are planned with a view to changing the regulatory and methodological framework as well as supporting implementation. In addition, comprehensive improvement of the activity of Analytical Units (Internal Units for Planning Documents and Support to Public Policy Management) is envisaged under the programme for improving public policy management and regulatory reform (through support for the organizational establishment and improvement of competencies, but also by formulating a systematic approach to data management and information base).
Recommendation 4	The weaknesses in <i>lines of accountability</i> between independent bodies and their parent institutions <i>need be addressed as part of the public administration reform</i>
Status	Implementation is underway
Follow-up	This recommendation will be implemented under:

	<ul style="list-style-type: none"> - Specific Objective 6 of the PAR Strategy for the 2021–2030 period <ul style="list-style-type: none"> – Increased level of accountability and transparency at all levels of the government, Measure 6.1: Establishment of systemic solutions for managerial accountability in public administration bodies, which includes activities for the systemic improvement of delegation of responsibilities, clear lines of accountability among institutions and performance appraisal at institutional level as well as the establishment of a Register of Public Office Holders; - Measure 6.2: Improvement of the vertical and horizontal system of control and monitoring of the public administration performance (establishment of a performance-based management mechanism in the public sector).
Recommendation 5	<i>The Ministry of Finance should be part of the action for the implementation of managerial accountability because of the necessity of having objectives linked to resources</i>
Status	Implemented, improvements are underway
Follow-up	<p>The new generation of planning documents has a clear connection with the programme budget. The link to the programme budget is stated in the planning documents for each individual activity, and the costs are estimated at the level of each measure and activity for each year of implementation. Bearing in mind that the implementation of this approach has only just begun, further improvements are planned through the PFMR Programme and the Programme for Improving Public Policy Management and Regulatory Reform, which is in the pipeline.</p> <p>The Programme for Improving Public Policy Management and Regulatory Reform envisages Specific Objective 3: Effective coordination of public policies through Measures 3.3: improving the coherence of planning at the central level (APSBV, GPRV, NPAA, ERP), and 3.4: Improving monitoring and reporting on the results of public policy implementation and improved communication with the public (stronger interconnectivity of IT tools and increased transparency), while Target 1 of the PFMR Programme provides for a set of measures and activities aimed at advancing this area, mainly through the improvement of medium-term plans.</p> <p>Given that medium-term plans result in increased managerial accountability (improved performance and transparency) and are based on the alignment of the programme budget and related government policies with the objectives of strategic planning documents, they are among the most important institutional tools for ensuring that objectives are linked to resources.</p> <p>The programme budget requires budget beneficiaries to submit information on their objectives, programmes and activities, on the basis of which the Ministry of Finance makes a decision on the allocation of budget funds and establishes thresholds for each user, this is a system in which the allocation of resources is based on the institution’s results or performance. The institutions also need to provide information about their short-term and long-term objectives and how much it costs to achieve them. In addition, linking policy documents to the programme budget, through medium-term plans, enables the monitoring of implementation</p>

	costs and, most importantly, the monitoring of policy outcomes and effects.
Recommendation 6	<i>The capacities to implement internal control standards, including risk management have to be further enhanced at both central and local government.</i>
Status	Implementation is underway
Follow-up	<p>By means of the annual reports submitted by the PFBs, the CHU monitors whether the beneficiaries are aware of the CHU recommendations from the CAR and whether CHU recommendations are implemented with a view to improving the risk management segment in the organization.</p> <p>The CHU proposed, and the NAPA adopted this proposal to include the Internal Control Tools and Risk Management Training in the General Training Programme for Civil Servants for 2021. This training directly targets the EC recommendation as well as the CAR recommendation.</p> <p>The CHU will implement further measures in order to improve risk management in PFBs, which is envisaged under measure 4.1: Improving the FMC system in public sector institutions targeted by Activity 4.1.3: Improving risk management in the group of priority PFBs at central level through direct project support. Several risk management indicators were established for the implementation of measures under the new PFMR Programme: the percentage of priority PFBs⁵⁹ that established a Risk Register, the average score of the priority PFBs group that are updating the Risk Register (performing at least one risk assessment and review of the adequacy of measures per year), the average score of the priority PFBs group⁶⁰ in which managers take decisions geared toward managing identified risks (in connection with risk response: acceptance, avoidance, mitigation or risk transference) and the average score of the priority PFBs group reporting to the management on risks.</p>
Recommendation 7	Not all institutions that are required to <i>establish an internal audit unit</i> have done so and many internal audit units do not have sufficient <i>number of auditors</i> .
Status	Implementation is underway
Follow-up	Under the PFMR Programme for 2021–2025, the CHU set out activities aimed at increasing the deployment of NAPA training capacities, modernizing training materials and preparation, developing and implementing the improved process for the licensing of internal auditors. In addition, the CHU is also actively investing an effort to systematically improve the status of internal auditors and increase the attractiveness of calls and competitive conditions work on the promotion of that profession. It is planned to change the regulations which would speed up this process.
Recommendation 8	Improve the <i>timely implementation of internal audit recommendations</i> and further develop internal audit quality assurance
Status	Implementation is underway

⁵⁹ Ministries with constituent administrative bodies, MSIO, PEs engaging in activities of public interest and operating in accordance with the Law on PEs and cities.

⁶⁰ *Ibid.*

<p>Follow-up</p>	<p>The AP for the implementation of the new PFMR Programme 2021–2025 includes additional activities that will directly improve the level of implementation and quality of recommendations:</p> <ul style="list-style-type: none"> - establishment of a single information system (JIS) for internal control in the public sector (which should enable the unification of the administration and the documenting of internal audit activities and the recording and monitoring of the status of findings and internal audit recommendations by using software); - preparation and implementation of trainings for internal auditors through the Programme for the Continuous Professional Development of Internal Auditors in the Public Sector; - the introduction of external quality reviews according to the peer review method; as well as - the improvement and publication of Guidelines for the Internal Evaluation of the Performance of IA Units. <p>The CHU also regularly monitors the implementation of IA recommendations in the PFBs through the CAR: As the awareness of managers about the importance and role of internal audit is of great importance for improving the timely implementation of IA recommendations, the CHU also provides trainings as part of its regular activities. In addition, at the initiative of the CHU, trainings directly targeting knowledge and awareness raising of managers and employees about the importance of PIFC have been included in the NAPA training programme for public sector employees and managers for 2021.</p> <p>The model for internal quality assessment of IA has been published on the MFIN/CHU website, at the same time we are also working with GIZ to improve the methodology for external quality assessment of IA.</p>
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Annex 8. Recommendations from the CAR on PIFC for 2019

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

Recommendation 1	Prioritize/define the circle of PFBs for CAR with emphasis on monitoring the biggest PFBs
Status	Multi-year recommendation, implementation is underway
Follow-up	At the end of 2017, a Gap Analysis was prepared providing a snapshot of the situation in the field of financial management and control and internal audit in the public sector. It was implemented with the help of the Twinning Project and contains recommendations for overcoming identified weaknesses and improving the PIFC system. The analysis was finalized in early 2018, and in 2019 and 2020 the CHU cooperated with SIGMA to define the circle of the most important institutions and the purpose and effect on implementation, so as a result, a change in regulations was prepared. Support in terms of more detailed analyses was also provided by the UNDP / SECO project.
Recommendation 2	Direct and indirect budget beneficiaries should establish and foster cooperation and share experiences in the FMC field at the level of each department.
Status	Multi-year recommendation, Implementation is underway
Follow-up	<p>LSGs participated in the RELOF 2 project in drafting amendments to a regulation that includes LSGs in the system of reporting, consolidation, making recommendations for improving FMC and monitoring the implementation in PFBs under their responsibility.</p> <p>The improvement of cooperation of direct and indirect PFBs will be implemented under the PFMR Programme 2021–2025 under measure 4.1: Improvement of the FMC system in public sector institutions, envisaged under two related activities:</p> <ul style="list-style-type: none"> - 4.1.4 Development of practical financial management and control methodological tools/knowledge products adapted to the specificities of specific important groups of indirect PFBs at the central level to support ministries for public funds beneficiaries under their responsibility (several selected departments at the central level, including healthcare institutions); - 4.1.5 Support to the establishment and improvement of the FMC system at the local level with the participation of selected LSGs and their indirect budget beneficiaries. <p>The segment of activities that involves the Ministry of Education, Science and Technological Development and the schools within the RELOF 2 project started in the second quarter of 2021.</p> <p>In addition, plans have been prepared to test a broader involvement of LSGS for budget beneficiaries under their responsibility within the RELOF 2 project through the Local Government Reform Programme 2021–2025, Measure 2.4: Intensive development of the public internal financial control system (PIFC) at the local level and Activity 2.4.1: Support to the establishment / improvement</p>

	of an adequate FMC system in 8 indirect budget beneficiaries of LSGs (where training, direct technical support in the field, mentoring and networking are envisaged) as part of the establishment of a management accountability system at the local government level.
Recommendation 3	PFBs should further improve risk management through a review of the FMC system on the ground and identification of potential problems (redefined recommendation from CAR for 2018 and 2019) and address issues related to the establishment and maintenance of risk registers and updating control activities for the purpose of reducing risk to an acceptable level
Status	Multi-year recommendation, Implementation is underway
Follow-up	<p>Half of the PFBs that submitted annual FMC reports have worked to implement this recommendation. In the PFB group that reports regularly, there is an increase in affirmative answers to all questions related to risk management in the segment on the establishment of FMC in 2020 relative to 2019.</p> <p>The Risk Management Guidelines, which were updated and published on the CHU website in November 2018, were updated once again in the first half of 2020. The Risk Management Strategy model was prepared and published on the CHU website in November 2018. The FMC Manual was updated at the end of 2018 and published on the CHU website in February 2019. In this Manual, COSO 2013 is implemented, the concept of managerial accountability is further clarified, the COSO 2017 – Risk Management Framework is presented, and additional specific tools are included for the implementation of certain aspects of the FMC system. The manual was updated again in the first quarter of 2020. Risk management in PFBs was also analysed as part of the quality review of the FMC system.</p> <p>It will take some time for the application of new tools to take root in practice. The CHU uses every opportunity to promote these tools (through e-mails, trainings, on the website, in the questions contained in the questionnaire).</p> <p>The PFMR Programme envisages activities to improve this area under Measure 4.1: Improving the FMC system in public sector institutions targeted by Activity 4.1.3 Improving risk management in the priority group of PFBs at the central level through direct project support. For the implementation of measures within the new PFMR Programme, several indicators related to the area of risk management have been determined: percentage of priority PFBs⁶¹ that have compiled a risk register, average score of the priority group of PFBs that are regularly updating their Risk Register (performing a risk assessment and reviewing the adequacy of measures at least once a year), average score of the priority group of PFBs⁶² in which managers make decisions aimed at managing identified risks (related to risk response: risk acceptance, avoidance, mitigation or transference) and average score of the priority group of PFBs that report on risks to the management.</p>

⁶¹ Ministries with constituent administrative bodies, MSIO, PEs engaging in activities of public interest and operating in accordance with the Law on PEs, and cities.

⁶² *Ibid.*

Recommendation 4	Introduction of management of irregularities through the preparation of the regulatory and methodological framework by the CHU with the Twinning Project, and then ensuring its implementation by the PFB managers.
Status	Implemented
Follow-up	<p>The definition of irregularities is prescribed in Article 2 of the Law on the Budget System. Amendments to the FMC Rulebook, in December 2019, introduced the obligation to establish a system for managing, reporting and mitigating the risk of irregularities, which is the responsibility of the PFB manager, whereby this area has been normatively regulated.</p> <p>The draft guidelines for managing irregularities were developed in cooperation with the Twinning Project in 2019. The guidelines were finalized in the first quarter of 2020 and published on the MFIN website. The first reports in the field of irregularity management arrived at the CHU in the first quarter of 2021 as part of the reports on the state of the FMC system submitted by PFBs, and a special section on irregularity management is included in the CAR (2.1.8. Management of Irregularities).</p>
Recommendation 5	PFB managers are key actors in setting up the FMC system under the COSO framework and they need to engage and allocate adequate resources, particularly in terms of staff time and coordination of the activity, and, with the help of the FMC manual and other methodological guidelines prepared by the CHU, regularly report to reach and demonstrate that COSO standards are applied in their organizations. This recommendation primarily refers to PFBs that are not yet reporting on their FMC system, and which fall into one of the following categories of PFBs: direct beneficiaries of the central budget, local self-government units, and all other PFBs with over 250 employees (redefined recommendations from 2019).
Status	Partially implemented
Follow-up	<p>The CAR for 2019 was submitted to all ministries and judicial institutions of the first order for the implementation of recommendations, by Decision of the Government. The implementation of COSO principles is recording continuous progress. In 2021, there was a significant increase in the number of reports submitted compared to all previous reporting cycles, despite the current constraints and difficulties faced by PFBs during the pandemic crisis. Although the introduction of electronic reporting was a new requirement for the PFBs, they successfully submitted their annual reports in this manner. The most important institutions continue to report regularly on their FMC systems, but there are exceptions. In 2020, the CHU prepared a proposal for changes to the regulations, which would include penalties in case of non-compliance for this circle of priority beneficiaries. Letters of notification were sent to the circle of priority PFBs to remind them of their obligation to submit annual reports on FMC and IA in accordance with the LBS, and that they can download self-study materials published on the MFIN/CHU website, where user instructions for submitting reports electronically are also posted.</p> <p>The highest rate of compliance with FMC guidelines was identified in the MSIO group as well as in the PEs and ministries with constituent administrative bodies groups. The PFB group that stated in their annual reports that they have the lowest rate of implementation of the CHU guidelines are indirect budget</p>

	<p>beneficiaries at both central and local level. Of all the CHU methodological materials, the Risk Management Guidelines and the FMC Guidelines for small PFBs for the establishment of FMC were the most used, by all PFBs, while the Guidelines on the Delegation System were the least used.</p> <p>The largest share of PFBs that stated they were not using any of the available methodological materials for the establishment of FMC is from the group of users of NHIF funds.</p>
Recommendation 6	<p>Filling IA positions:</p> <ul style="list-style-type: none"> - all PFBs should harmonize the systematization (staffing plans), number of staff, and fill in the internal auditor positions in accordance with the regulations, risks, complexity of operations and the number of resources they manage; - by way of priority ministries, direct beneficiaries of the central budget that are responsible for indirect beneficiaries, and cities that still did not staff their IA units, should, as soon as possible hire appropriate staff to fill the positions of internal auditors or deploy them within their existing human resources capacities.
Status	Partially implemented
Follow-up	Despite the increase in the total number of normatively established IA functions and systematized and filled internal auditor positions in PFBs in 2020, relative to last year, the recommendation is still not fully implemented.
Recommendation 7	The CHU should systematically examine all factors influencing the staffing of internal audit units, as well as the adequacy of the existing policy of attracting and retaining staff
Status	Multi-year recommendation, Implementation is underway
Follow-up	<p>With the support of the UNDP project:</p> <ul style="list-style-type: none"> - a comparative analysis was performed of the policy implemented by Croatia, the Czech Republic and Ireland to attract IA staff in the public sector; - an analysis was performed of the number of certified internal auditors, their turnover rate, as well as reasons for leaving the job, based on data from the register of certified internal auditors and the survey conducted by means of a questionnaire. <p>The plan is to check the complexity of IA work, tools for recruitment and selection of internal auditors, activities that would increase awareness of IA of potential future internal auditors, as well as a possible proposal for improving the position of internal auditors within existing mechanisms for retaining quality staff in public administration.</p>
Recommendation 8	<p>The heads of IA units should adopt a quality assurance and improvement programme and perform an internal assessment of the quality of internal auditing in accordance with the existing Model for internal quality reviews of the performance of IA units recommended by the CHU as well as:</p> <ul style="list-style-type: none"> - consider all individual causes for failure to implement audit engagements; - the PFBs and IA need to ensure that the annual internal audit plan is realistic, adequate, and in line with the risk assessment; - select potential staff for IT audits.
Status	Implemented

Follow-up	A model has been developed for the internal assessment of the performance of IA units. As part of the analysis of annual reports on implemented audits and activities of the PFBs' IAs, the CHU monitors the status of implemented recommendations.
Recommendation 9	The role of PFB managers is crucial for the adequate establishment of the IA function, therefore, managers who have failed to set up an adequate IA function in their institution should engage in the following tasks: <ul style="list-style-type: none"> - aside from filling internal auditor positions, engage in the adequate implementation of internal audit recommendations; - ensure the independence of the IA function by preventing auditors from performing other tasks that may become subject to audit; - facilitate the professional development of internal auditors.
Status	Partially implemented
Follow-up	The recommendation is largely met by PFBs that have established functional IA. In the case of newly established IA, in which employed internal auditors are not yet involved in the training process organized by the CHU, the reports state that a significant part of the time is spent on other tasks that are outside the scope of IA. The implementation of recommendations needs to be further monitored and improved.
Recommendation 10	Each PFB should consider all the listed individual causes for non-implementation of audit engagements and seek to resolve these.
Status	Implementation is underway
Follow-up	There is no perceptible change in the situation regarding the implementation of the recommendation, given the operational constraints experienced by some PFBs in 2020 due to the pandemic.
Recommendation 11	The PFB and its internal audit need to ensure that the annual internal audit plan is realistic, adequate, and in line with the risk assessment
Status	Implementation is underway
Follow-up	Through the training process, the CHU will raise awareness of the importance of realistic planning of IA activity and will monitor the fulfilment of the recommendation through the CAR.
	CHU
Recommendation 12	The CHU should provide additional support for the setting up and development of IT audits, i.e., for establishing a new and improving the existing methodological framework for organizing and conducting these audits and provide appropriate training. The PFBs should select potential staff for these types of audits and improve risk assessment in the annual planning of IA work, in particular identifying risks to information systems and information security.
Status	Implemented
Follow-up	In 2020, the CHU, in cooperation with the UNDP/SECO project, prepared methodological materials on the topic of IT audits and information security. The PFBs have shown interest in attending trainings for this type of audit in order to select staff, and in their annual reports they stated that these audits were included in their annual work plans. The importance of IT audits is growing. The situation will continue to be monitored through the CAR.

Recommendation 13	the CHU should enable the design of comprehensive and high-quality state-of-the-art e-learning materials (that will include deductive materials, video tutorials, exercises, tests, e-portfolios, simulation software and similar) from different PIFC areas, and develop additional tools for specific types of users (redefined recommendation from 2019).
Status	Implemented continuously
Follow-up	<p>In cooperation with the Twinning Project:</p> <ul style="list-style-type: none"> - a comprehensive set of guidelines (both new and updated ones) was prepared in 2019, finalized in the first quarter of 2020 and published in the second quarter, - a set of 10 case studies, currently in the testing phase, was prepared for the e-learning platform to help participants prepare for the practical portion of the exam for internal auditors, - on the e-learning platform of the National Academy for Public Administration a representative showcase example was posted on the topic of managerial accountability, which was prepared by the project, - a short video clip was prepared on managerial accountability. <p>The materials were published on the website of the MFIN in the e-learning section of the CHU web page, in the section “<i>e-Learning</i>”.</p> <p>In the new AP for PFMR Programme 2021–2025, the CHU envisaged an activity related to the development of practical methodological FMC tools/knowledge products adapted to the specificities of specific important groups of PFBs at the central and local level.</p>
Recommendation 14	Improve the monitoring and reporting system through electronic reporting via the CHU software, additionally improve the Questionnaire and Report
Status	Implemented
Follow-up	<ul style="list-style-type: none"> - In cooperation with SIGMA consultants, the analytical approach, content and the form of the Consolidated Annual Report on the Status Public Internal Financial Control in the Republic of Serbia for 2018 were significantly changed and improved in terms of structure, statistics and analyses. The recommendations provided are more oriented towards the system as a whole rather than specifically towards the CHU. Separate chapters were prepared on the perspective of the SAI and the Budget Inspectorate. Emphasis is also placed on monitoring the recommendations contained in the EC Annual Progress Report, identified structural weaknesses and recommendations for improvement of the PIFC provided by the CHU, the achievement of the objectives of the PIFC Strategy, and special attention is devoted to the internal audit and internal control review results. - The report for 2019 has been further improved, primarily through a comprehensive approach to the COSO framework and a deeper understanding of internal audit (reference to item 8 of the Review of Recommendations from the EC Progress Report for 2018). - In 2019, the CHU, in cooperation with UNDP and SDC, initiated and implemented activities to solve technical issues and improve the software used by PFBs for reporting on the state of PIFC (improvement of the existing software for access and submission of annual reports to the CHU

	<p>electronically in cooperation with the project for the “Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management”).</p> <ul style="list-style-type: none"> - The software became operational at the end of 2019, as soon as the major technical and functional flaws were eliminated, instructions were prepared and sent to the PFBs, the training for PFBs for the use of software was scheduled in the first quarter of 2020 but was cancelled due to the pandemic. - The software was tentatively included in the reporting system for 2019, and half of all received reports were submitted electronically. - The software is in regular use, i.e., its use continued in the 2021 reporting period, and 2,578 PFB reports were submitted through this software.
Recommendation 15	Further encourage the increase in the number of submitted reports on the FMC system by prescribing penalty provisions for non-compliance for the most important circle of beneficiaries
Status	Implementation is underway
Follow-up	In 2020, the CHU prepared a draft of possible amendments to the regulations with a view to improving the reporting system.
Recommendation 16	The CHU should improve the certification process to reduce the need for direct engagement of CHU employees. The availability of training and the possibilities for obtaining a certified internal auditor certificate should be expanded by involving the private sector as well as through cooperation with the academic community
Status	Implementation is underway
Follow-up	In 2019–2020, the CHU prepared possible amendments to the PIFC regulatory framework related to the certification scheme (currently in the phase of obtaining the opinion of stakeholders and state bodies relevant to the IA sector) directly targeted by this recommendation. To increase availability of training, NAPA capacities, as well as the capacities of certified public sector internal auditors who have already been certified, will be used, as also envisaged by the AP for the implementation of PFMR Programme for the 2021–2025 period, which is the policy document for improving the PIFC.