



**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 2019**

**Belgrade, October 2020**

## List of Abbreviations:

**AP** – Autonomous Province

**AP PIFC** – Action Plan for the 2019–2020 period for the implementation of the Strategy of Public Internal Financial Control in the Republic of Serbia for the period 2017–2020

**GIZ** – German International Cooperation Organization - Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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

**DBBs** – Direct Budget Beneficiaries

**SAI** – State Audit Institution

**EC** – European Commission

**EU** – European Union

**BSL** – Budget System Law

**IBBs** – Indirect Budget Beneficiaries

**IIA** – Institute of Internal Auditors

**INTOSAI** – International Organization of State Audit Institutions

**IPA** – Instrument for Pre-accession Assistance of the European Union

**IA** – Internal Audit

**ISO** – International Organization for Standardization (ISO)

**PIFC** – Public Internal Financial Control

**IT** – Information Technology

**PUC** – Public Utility Companies

**LGU** – Local Government Unit

**PE** – Public Enterprises

**BBs** – Budget Beneficiaries

**CAR** – Consolidated Annual Report

**PFB** – Public funds beneficiaries

**COSO** – Committee of Sponsoring Organizations of the Treadway Commission (COSO)

**MPALS** – Ministry of Public Administration and Local Self-government

**MFin** – Ministry of Finance

**NAPA** – National Academy for Public Administration

**NES** – National Employment Service

**MSIO** – Mandatory Social Insurance Organizations

**PEMPAL** – Public Expenditure Management Peer Assisted Learning network

**IV** – Initial Value

**IA Rulebook** – Rulebook on common criteria for implementing and standards and methodological guidelines for internal audit activity and reporting in the public sector

**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

**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

**FMC Manual** – Financial Management and Control Manual

**PFM** – Public finance management reform programme

**WG** – Working Group

**PAR** – Public Administration Reform

**RELOF 2** – Local Government Finance Reforms project (RELOF)

**ReSPA** – Regional School of Public Administration

**RS** – Republic of Serbia

**PPS** – Public Policy Secretariat

**PLS** – Public Legislation Secretariat

**NHIF** – National Health Insurance Fund

**SDC** – Swiss Agency for Cooperation and Development

**SEKO** – 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)

**MSI** – Military Social Insurance

**HRMS** – Human Resources Management Service

**PAR Strategy** – Public Administration Reform Strategy

**PIFC Strategy** – Public Internal Financial Control Strategy

**TWINNING** – European Union instrument for institutional cooperation between Public Administrations of EU Member States and of beneficiary country (TWINNING)

**UNDP** – United Nations Development Programme

**FMC** – Financial Management and Control

**TV** – Target Value

**CHU** – Central Harmonization Unit

# TABLE OF CONTENTS

<b>I INTRODUCTION</b> .....	<b>7</b>
1.1 Purpose and objective .....	7
1.2 Methodology of the Consolidated Annual Report .....	7
<b>II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM</b> .....	<b>10</b>
2.1 Financial management and control .....	11
2.1.1 Concept and definition.....	11
2.1.2 Scope of submitted reports .....	12
2.1.3 Self-assessment – the COSO framework.....	13
2.1.4 Concluding remarks – elements of the FMC system, PFB categories, emerging trends and perspectives .....	22
2.1.5 FMC from the perspective of public funds beneficiaries: analysis of open issues .....	25
2.1.6 Quality review of financial management and control systems .....	31
2.2 Internal audit.....	33
2.2.1 Coverage of internal audit .....	33
2.2.2 The IA function .....	36
2.2.3 Planning and evaluation of work .....	41
2.2.4 Overview of performed audits .....	41
2.2.5 Issued and implemented recommendations .....	45
2.2.6 Internal audit consulting services .....	50
2.2.7 Quality review of internal audit activity .....	52
2.2.8 PFBs’ proposal for the development of internal audit .....	54
2.3 How COSO works in practice: external review of the FMC system .....	55
2.3.1. Overview of inspection oversight by the Budget Inspectorate based on the annual activity report for 2019 .....	55
<b>III PROGRESS REPORT</b> .....	<b>59</b>
3.1 Overview of results achieved based on the objectives referred to in the PIFC Development Strategy 2017-2020.....	59
3.2 Recommendations from the EC Report on Serbia for 2018 and 2019 .....	62
3.4 Recommendations from the PIFC Consolidated Annual Report for 2018.....	69
3.5 CHU Activities .....	76
3.5.1 Continuous development of methodological manuals and guidelines for internal audit and financial management and control.....	76
3.5.2 CHU activities to improve the concept of managerial accountability .....	77
3.5.3 International cooperation .....	78
3.5.4 Promotion of the importance of internal financial control.....	79
3.5.5 Trainings.....	<b>Error! Bookmark not defined.</b>
<b>IV WEAKNESSES AND RECOMMENDATIONS</b> .....	<b>82</b>
4.1 Financial management and control .....	82
4.2 Internal audit.....	84
4.3 Central Harmonization Unit .....	87
<b>CONCLUSION</b> .....	<b>90</b>

<b>ANNEXES .....</b>	<b>94</b>
<b>Annex 1. Legal framework and international standards .....</b>	<b>95</b>
<b>Annex 2. Implementation of the Action Plan for the PIFC Strategy .....</b>	<b>100</b>
<b>Annex 4. Overview of PFBs that established internal audit .....</b>	<b>125</b>
<b>Annex 5. Form for the annual report on audit and internal audit activities.....</b>	<b>131</b>

**The activities of Serbia's public sector were impacted by the declaration of a state of emergency on the territory of Serbia due to the COVID-19 pandemic. As a result, the preparation of the Consolidated Annual Report on the Status of PIFC in 2019 was delayed compared to last year.**

## **EXECUTIVE SUMMARY**

The Consolidated Annual Report on the Status of Public Internal Financial Control 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 Law<sup>1</sup> (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 Consolidated Annual Report (CAR) on the Status of Public Internal Financial Control in the Republic of Serbia in 2019 is to provide an overview of the information gathered and inform relevant stakeholders about the progress made and results achieved by public fund beneficiaries in the process of setting up, developing, and strengthening their respective financial management and control systems and internal audit functions. The objective of the report is to highlight both the strengths and weaknesses of the system, but also to provide recommendations for its further development and improvement.

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

The analysis of the individual reports received indicates that a significant share of the most important institutions and public enterprises at national level are reporting on the status of the financial management and control system. Total spending and disbursements of direct budget beneficiaries included in the CAR account for approximately 87% of total state budget spending and disbursements for 2019. Public enterprises at central level that submitted a report on the financial management and control system account for 99% of the total revenues of the public enterprises' group.

At sub-national level, the provincial and city authorities and services are largely fulfilling their statutory reporting obligations, at least in respect of the total budget coverage percentage (over 87%). There is room to improve the situation at the municipal level, where the coverage of the total budget is set at 56%.

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<sup>1</sup> (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. A stable 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, in other words all direct budget beneficiaries at central level distinguished themselves with higher than average scores of the status of the financial management and control system. That said, some individual 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 biggest and most important PFBs are largely submitting their reports on audits and internal audit activities. Their scores indicate that a functional internal audit has been established in entities that account for over 80% of the budget of direct budget beneficiaries at the central government tier, mandatory social insurance organizations (MSIOs), the Autonomous Province (AP) of Vojvodina, towns, and public enterprises at central level.

A 9% increase was registered in the total number of PFBs with a functional internal audit system in place, relative to 2018. The number of positions regulated in the staffing plan increased by 7%, while the percentage of vacancies filled in 2019, relative to the previous year is negligible (0.4%).

Serbia implemented more than 95% of the recommendations made by the European Commission (EC) in its Report on Serbia's progress in the context of Chapter 32 negotiations. Activities on the implementation of the remaining recommendations are ongoing. In the frame of its Serbia 2020 Report, the EC assessed Serbia's progress in the field of public internal financial control (PIFC) as good. The recommendations from the Consolidated Annual Report on the State of Public Internal Financial Control for 2018 have been largely implemented (around 60%), and the implementation of the remaining recommendations is ongoing. When it comes to the implementation of the activities planned under the Action Plan for the implementation of the Public Internal Financial Control Strategy (PIFC AP), 82% have been implemented in full, and 18% in part.

Two Rulebooks in the area of internal financial control were adopted and the Manual on Financial Management and Control was updated. Work was done to update the Internal Audit Manual, and as many as twelve guidelines / models and one video from various areas of internal financial control were completed in the first half of 2020.

The electronic submission of PFB's reports through the application of the Central Harmonization Unit has begun.

Appropriate recommendations for the further development and improvement of the PIFC

system made in this CAR are based on the analysis of annual reports of PFBs, information collected in the financial management and control system reviews and reviews of PFBs' internal audit activities, and also based on progress made in the achievement of objectives envisaged in strategic policy documents (PIFC Strategy, PFM Programme, and PAR Strategy) and in the implementation of recommendations of the European Commission as well as based on previous reports on the status of public internal financial control.

# I INTRODUCTION

## 1.1 Purpose and objective

The purpose of the Consolidated Annual Report (CAR) is to present the information gathered about the progress and results achieved by public fund beneficiaries (PFBs) in the process of introduction, development and strengthening of the financial management and control system and internal audit function, and to not only 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 (BSL), the Central Harmonization Unit (CHU), as an organizational unit of the Ministry of Finance (MFin), prepared the Consolidated Annual Report on the Status of Public Internal Financial Control for 2019 (CAR). The CAR is produced by integrating the individual annual financial management and control system (FMC) reports, in other words, the annual reports on audits and internal audit (IA) activities submitted by the public funds beneficiaries, into a single consolidated report. The individual reports are submitted electronically, through the CHU application, by completing and sending a questionnaire in Word (both the app and form are available on the web portal *ifkj.mfin.gov.rs*).

The required questionnaire reporting forms are prepared by the CHU, in accordance with the by-laws. The form itself is created based on a model used in the European Union (EU) Member States and the United States. The FMC questionnaire-reporting form for 2019 is an improvement over previous years' versions, and aims to provide a more comprehensive and insightful overview of the status of FMC, by component, and by COSO framework principle<sup>2</sup>.

The questionnaire for 2019 consists of 74 questions. The twenty-six existing questions were replaced with new ones, while six questions were slightly modified. Internal control self-assessment entails the selection of one of the five offered scores (on a scale from 1 to 5) ranging from "NO" to "YES", depending on the stage of development/implementation of the FMC system. The "YES" and "NO" answers also entail the obligation to provide evidence/documents or state reasons.

The form of the annual report on audits and internal audit activities for 2019 was supplemented with six new questions relative to the 2018 form.

Table 1 provides an overview of the classification of public funds beneficiaries used in the CAR.

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<sup>2</sup> Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control – Integrated Framework", May 2013.



**Table 1 – Classification of public funds beneficiaries**

Tier/level	PFB Category	PFB
Central/national	Ministries with constituent administrative bodies	Ministries, administrations, directorates, and inspectorates 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)
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.
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The above classification is in accordance with the BSL and is primarily based on the types of PFBs defined in the List of Public Funds Beneficiaries published by the Treasury Administration of the Ministry of Finance<sup>3</sup>. Taking into account the requirements of the European Commission (EC) under Chapter 32 on Financial Control, as well as the special importance of ministries and the administrative bodies that are part of them, and that of public enterprises at the central level, these two categories are shown separately.

All indicators for 2019 are disaggregated by PFB category. Especially when it comes to the report on the state 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 advisable.

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 Action Plan.

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<sup>3</sup> Please refer to the Rulebook on the procedure for determining and keeping records on public funds beneficiaries and the terms and conditions for opening and closing subaccounts in the consolidated treasury account of the Treasury Administration (Official Gazette No. 99/18 and 40/19).

## II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

The Public Internal Financial Control (PIFC) concept<sup>4</sup> was developed by the EC to assist the candidate countries in the reform of their internal control systems and management of public funds (both national and EU funds), by applying international standards and best EU practices. In accordance with internationally accepted EU standards and recommendations, the PIFC entails “*a comprehensive system established for the purpose of managing, controlling, auditing and reporting on the use of national and EU funds*”. This system encompasses sound financial management, financial and other controls which enable lawful, economical, efficient, and effective business processes.

The implementation of the PIFC is a benchmark for closing negotiations Chapter 32 on Financial Control.<sup>5</sup>

The Budget System Law defines the PIFC as a comprehensive system of measures for the management and control of public revenues, expenditures, assets and liabilities, established by the Government through public sector 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 openness.

The PIFC system consists of the following interrelated areas:

- financial management and control system in public fund beneficiaries, based on managerial accountability;
- decentralized internal audit by public fund beneficiaries;
- harmonization and coordination of financial management and control and internal audit performed by the Ministry of Finance – the CHU.

The PIFC system primarily relies on managerial accountability, defined by the Budget System Law 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 such responsibility to them.

Serbia’s existing legal framework is based on international internal control standards. The *FMC Rulebook*<sup>6</sup> states that the elements of the financial management and control system are defined in accordance with international internal control standards related to standards

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<sup>4</sup> Public Internal Financial Control

<sup>5</sup> Negotiating chapter 32 – Financial control, covers four main areas: public internal financial control (PIFC), external audit, protection of the EU’s financial interests and the protection of the euro against counterfeiting. For more information about chapter 32, see *Annex 2*.

<sup>6</sup> Rulebook on common criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector

harmonized with the Internal Control Standards Guidelines for the Public Sector, developed by International Organization of Supreme Audit Institutions (INTOSAI) and the COSO framework.

Also, the *IA Rulebook*<sup>7</sup> prescribes the obligation to comply with the international internal audit standards (International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors). The regulations governing the PIFC area are listed in *Annex I*.

## **2.1 Financial management and control**

### **2.1.1 Concept and definition**

The Budget System Law (BSL) and the FMC Rulebook define financial management and control as a system of policies, procedures and activities established, maintained and regularly updated by the head of the entity to provide reasonable assurance, based on risk management, that the organization's objectives will be achieved in accordance with the principles of lawfulness, economy, efficiency, and effectiveness, specifically by ensuring:

- 1) that business is done in line with the regulations, internal bylaws, and contracts;
- 2) the completeness, accuracy, and integrity of financial statements and business reports;
- 3) the economical, efficient, and effective use of resources;
- 4) the safeguarding of assets and data (information).

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

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

The public funds beneficiary manager is responsible for the implementation and proper functioning of the FMC system within the organization under his/her management. The FMC system is based on the managerial accountability of managers at all levels. Therefore, this system 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.

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<sup>7</sup> The Rulebook on common criteria for implementing and standards and methodological instructions for conducting and reporting on IA in the public sector.

### 2.1.2 Scope of submitted reports

For the year 2019, a total of 945 public funds beneficiaries submitted their annual reports on the FMC system to the Ministry of Finance – the CHU. Of all reports received, 886 properly compiled reports were integrated in the Consolidated Annual Report, while the remaining reports, which were either incomplete or filed late, were not included in the analysis.

A self-assessment questionnaire is also a part of the annual reports submitted by the PFBs. The self-assessment questionnaire underwent some changes relative to the previous reporting period because of a change in the COSO framework with the introduction of 17 internal control principles instead of the previously used 18 standards. This change made it impossible to retain continuity and consistency with the previous years' reports as it was not possible to monitor the trends within the individual elements of the internal control structure. The state of emergency introduced in Serbia on 15 March 2020 to halt the spread of COVID-19 caused by the SARS-CoV-2 virus, to some extent prevented PFBs from fully completing the self-assessment questionnaire and submitting it on time. The introduction of changes in the structure of the report and the declaration of a state of emergency predictably led to a slight decline in the number of reports submitted to 886 relative to 938 in 2018, but primarily in the group of relatively smaller PFBs' (in terms of having a smaller budget and fewer employees). The number of FMC reports submitted by the major PFBs' category remained stable and the analysis of their reports best reflects the status of FMC in Serbia's public sector.

Total expenditures and disbursements of all direct budget beneficiaries (ministries, administrations, judicial bodies, budget-based funds, directorates, offices, agencies, institutes, services...) included in the Consolidated Annual Report for 2019, account for almost 87% of total expenditures and disbursements of the budget of the Republic of Serbia for 2019.

**Table 2. Overview of submitted FMC reports included in the Consolidated Annual Report for 2019, by category of PFB**

<b>PFB category</b>	<b>Number of reports</b>	<b>Percentage</b>
Ministries	18	100.00%
MSIO	4	100.00%
Autonomous and independent state authorities	6	85,71%
Government services and offices and special organizations	18	52.94%
Judicial bodies (direct budget beneficiaries)	9	81.82%
Public enterprises at the central level	28	71.79%
Cities	19	67.86%
Municipalities	62	52.99%

A high reporting rate in the category of direct budget beneficiaries at the central level (ministries, autonomous and independent state authorities, government services and offices and special

organizations as well as judicial bodies) and MSIO indicates that the key institutions in Serbia are reporting on the progress of the FMC system. Cities that submitted their FMC reports are responsible for 87.39% of the total budget of cities, while the municipalities that submitted their FMC reports are responsible for 56.37% of the total budget of municipalities<sup>8</sup>. Public enterprises and companies at the central level of the Republic of Serbia that submitted the FMC reports are responsible for 99% of total revenues in the public enterprise group. The remaining PFBs that submitted their FMC reports are relatively small organizations with smaller budgets or fewer employees, hence, their relevance to the evaluation of Serbia's PIFC system is proportionally smaller.

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

### **2.1.3 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 2013<sup>9</sup>. An effective internal control system entails the application of all 17 principles that are part of the 5 COSO framework elements. The FMC should be a dynamic and integrated system with a high level of interdependence between the elements. The internal control systems and concrete solutions will inevitably differ depending on the specificities, i.e. characteristics and requirements of the individual entities. In the next section of this paper, an overview will be provided of the key results (average scores in the PFBs' self-assessment) disaggregated by COSO framework issues, principles, and elements, as well as by category of public funds beneficiaries listed in the previous section of the CAR<sup>10</sup>. A detailed overview of average scores is provided in the tables in Attachment 3.

*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.

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) the individual accountability of employees for fulfilling tasks.

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<sup>8</sup> Organizations from Kosovo and Metohija are not included. The organizations from the territory of Kosovo and Metohija have been operating in difficult and specific circumstances since 1999, and their activity is regulated by separate provisions and specific organization methods. In view of this, the organizations from the territory of Kosovo and Metohija were unable to submit their annual FMC reports.

<sup>9</sup> Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control – Integrated Framework", May 2013.

<sup>10</sup> Please refer to the CAR section entitled "Methodology of the Consolidated Annual Report".

a) The level of commitment to integrity and ethical values demonstrated by the PFBs is, overall, satisfactory (4.02). PFBs at national level reported a higher average score than organizations at local level, primarily due to the lower scores of indirect budget beneficiaries (3.17) and other PFBs<sup>11</sup> (3.88).

A code of conduct is in place in most organizations (4.38), it is clearly communicated (4.15), except in the case of PUCs (other PFBs at local level), where procedures guaranteeing awareness of all stakeholders about the existence and requirements of the code of conduct need to be improved (3.79). Further efforts are also needed in developing and implementing procedures for monitoring deviations from standard behaviour (average score for all PFBs – 3.67). The MSIO and PE categories are among the few with an average score of 4 and above on this issue. Ministries with constituent administrative bodies, MSIOs and PEs distinguished themselves with high scores in the field of implementation of measures to address non-compliance with the code, while the “other PFBs” category at the local level lags significantly behind in this segment as well.

The overall average score of 3.81 suggests that insufficient attention is paid to conflict of interest. However, this issue is treated seriously and is normatively regulated in almost all key PFBs at the national level, with a slightly lower average score of users of NHIF funds (3.75). Central level entities, as well as other local PFBs (PUCs), have defined clear rules regarding whistleblowing (scores above 4.00). There is some room for improvement when it comes to direct budget beneficiaries at the local level (local government bodies and services) and indirect budget beneficiaries at the local level (average scores 3.95 and 3.27, 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 controls and internal audit. The categories of ministries with constituent administrative bodies and PEs are the best examples of that, with an average score of 4.42 and 4.50, respectively. Without the commitment, support and positive example provided at the "top" of the organization, the successful implementation of the FMC system would hardly be possible.

The overall results in the field of integrity and ethical values are encouraging, given that this principle is key in building the trust and reputation of the organization, both internally and externally.

b) The requirement for independent, competent, and effective oversight by the management/supervisory board is primarily applicable to business companies and institutions rather than public sector entities. In this context, a high level of compliance with this principle is reported by public enterprises (an average score of over 4.50), while the situation in other PFBs at the central level, and beneficiaries of NHIF funds and PUCs is significantly less favourable (an average score of 3.50 or lower).

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<sup>11</sup> The group of “Other PFBs” at local level is comprised of PEs/PUCs.

c) On average, the organizational set-up, reporting lines, authority, and accountability was very highly rated by all categories of PFBs (4.33). Results are especially good in the segments related to the presence of detailed job descriptions (4.81), and adoption of annual work programmes (4.65). Organizations at the local level gave slightly lower scores on the individual issue of establishing appropriate internal and external reporting lines (3.87). All categories of PFBs at the central level meet this requirement to a significant extent. On the other hand, the impression is that the importance of regular reporting on financial management and control and internal audit is insufficiently recognized (overall average score – 3.58). In this segment, PFBs should follow the positive examples of PFBs from the categories of MSIO and “other direct budget beneficiaries at the central level” (average scores of 5.00 and 4.33, respectively).

d) In the area of human resource management, the overall average score of 3.90 comes very close to the required level. Organizations (especially at the central level) have in most cases defined their personnel policy (except for MSIOs – average score 3.00) and established control mechanisms in the process of recruiting new employees. Nevertheless, we need to emphasize that there is scope for significant improvement, especially when it comes to investing in further professional development. Organizations 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), but the implementation of plans in practice remains an open issue. In this context, PFBs highlighted the lack of internal control training (overall average score 3.20). To illustrate, ministries with constituent bodies reported an average score of 3.55. Only organizations from the categories of MSIOs and PEs have reached the required scores in this area. On the other hand, the example of IBBs, both at the 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 controls.

The overall average score in assessing the required knowledge and skills for the individual positions is high (4.76), 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 – 3.32). The MSIO category, which otherwise shows better results in most other segments of FMC, lags on this issue, with an average score of 2.75.

The results of the qualitative analysis<sup>12</sup> show that most PFBs are encountering challenges in the human resources sphere (lack of competent staff, huge staff turnover, shortage of staff, etc.).

e) The setting up of a system of individual accountability for the performance of internal control tasks is, overall, below the required level (3.59). A breakdown by category of PFB reveals that ministries and other direct budget beneficiaries, as well as, to some extent, public enterprises and other PFBs at the central level, satisfy these criteria with an average score exceeding 4. However,

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<sup>12</sup> Please refer to the CAR section entitled “FMC from the perspective of public funds beneficiaries: evaluation of open issues”.



especially MSIOs, but also beneficiaries of NHIF funds, DBBs at the local level and public utility companies reported insufficient commitment in this segment.

Having effective systems in place for the performance assessment and for motivating employees (total average score is below 3.5) is a prominent issue. It must be noted that without setting clear criteria and indicators and introducing performance and behaviour-related reward and punishment mechanisms, the internal control system cannot become fully sustainable. The MSIO category (scores 2.75 and 2.5), and local government authorities (the score for motivational mechanisms is 2.83), distinguished themselves in a negative way.

Ministries and other DBBs at the central level are the only ones to demonstrate a clear commitment to establish a comprehensive system of individual accountability. These requirements are also relevant in the context of the previously discussed principle, bearing in mind that they significantly affect the risk of losing qualified staff, in other words, the maintenance of an appropriate level of competencies to ensure the achievement of the organization's goals. Also, primarily organizations at the local 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. On the other hand, the effectiveness of the managerial accountability system in organizations at the central level is satisfactory (4.19), nevertheless, there is room for further progress at the local level (3.86).

**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, so that they take only the optimal amount of risk that allows them to effectively apply their strategy and achieve their strategic goals (risk tolerance threshold). The excellent functioning of risk management has a preventive effect on the occurrence of irregularities. Inadequate risk management 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 4.22 suggests that PFBs largely meet the requirement to formulate clear objectives, which is the basis for identifying and analysing associated risks. Organizations 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 4.00). On the other hand, DBBs at the local level are still investing insufficient efforts in this segment, especially where the connection between strategic and

operational objectives and the application of the SMART principle in defining the objectives is required (3.78 and 3.87, respectively). In contrast, other PFBs at the local level report a higher level of compliance with these standards (average scores over 4.00).

Good results were achieved in the segments of internal communication of strategic and operational goals (overall average score 4.25) and alignment of revenues and expenditures with set goals (overall average score 4.66). The overall set of goals of the organizations is largely in line with the relevant laws and regulations (overall average score 4.58). The management of PFBs at the central level, as well as of the category of “other PFBs at the local level”, define the external reporting objectives that are in line not only with regulations, but also with the requirements of relevant external organizations. There is a need, however, for local government bodies and services (DBBs) to further improve this aspect (average score 3.75).

b) Insufficient compliance with the principle related to risk identification and analysis is, overall, one of the most serious weaknesses identified in internal control systems (overall average score 3.41). Only ministries with constituent administrative bodies, MSIOs and PEs reported average scores above 4.00. Risk registers are updated irregularly (overall average score 2.94), except in the case of MSIOs (4.75). This result is certainly a consequence of the fact that only 48.74% of PFBs compiled a risk register. A slightly better score was reported only by ministries with constituent administrative bodies (66.67%), PEs (70.37%) and MSIOs (100%), as well as “other PFBs at the local level” (68.18%). If we only consider organizations with risk registers in place, the average score at the level of all PFBs is 3.95. In this context, the category of “ministries with constituent administrative bodies” shows an average score of 4.45, while DBBs at the local level with a score of 3.64 need to acknowledge the importance of changes in internal and external circumstances to a greater extent.

The processes of identifying risks related to key business processes, as well as identifying risks that could affect the achievement of specific goals, have not been established to a satisfactory extent (overall average scores of 3.56 and 3.52, respectively). Risk assessment, with an overall average score of 3.45, is another aspect that needs to be improved. Risks are not communicated (3.33) or discussed at management meetings (3.57) with sufficient regularity, resulting in a low score when it comes to decisions made to ensure risk response (3.49). In the mentioned segments, slightly higher scores were reported only by ministries with constituent administrative bodies, MSIOs and PEs.

c) When it comes to the requirement for mandatory assessments of the potential for fraud and corruption as a risk to the achievement of set objectives, public funds beneficiaries are investing certain efforts to meet this requirement (overall average score 3.55). MSIOs and other DBBs at the central level take this issue particularly seriously (average scores exceed 4.00).

d) Change management involves reviewing and assessing changes in the external environment (regulatory, market, physical changes) as well as internal changes. Change management is still in the development stage. Mechanisms for identifying and responding to the risks inherent in internal and external changes has not yet been fully recognized as an important factor for the

achievement of the organization's goals (overall average score – 3.22). In this segment, significant results were achieved only by PFBs from the categories of MSIOs (4.00), PEs (3.89), ministries (3.79) and “other DBBs at the central level” (3.75).

A risk management strategy was adopted by 57.61% of PFBs. MSIOs (100%), local government bodies and services (86.49%) and “other PFBs at the local level” (78.43%) distinguish themselves as a positive example. 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 educational institutions 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. In order to do that, the following conditions must be fulfilled: 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) Public funds beneficiaries in all categories at the central and local level, except for IBBs, have largely established a system of selection and development of control activities aimed at reducing risk. MSIOs (4.77), ministries with constituent administrative bodies (4.33) and beneficiaries of NHIF funds (4.20) particularly distinguished themselves in this respect. Organizations have largely prepared detailed descriptions of business processes and established control mechanisms. On the other hand, DBBs (excluding ministries and their constituent bodies), PEs and “other PFBs at the central level”, do not take into account risks associated with specific activities sufficiently in their written procedures, i.e. do not describe in detail all control activities to a sufficient extent (average scores are below 4.00).

Most organizations have adequate segregation of duties in place: ministries (4.45), other DBBs (4.64), MSIOs (4.75), and local government bodies and services (4.33). As expected, problems persist in the smaller organizations, primarily from the IBB category, where this condition cannot be met. Where this is the case, additional mechanisms should be implemented, most often in the form of enhanced oversight. However, the scores show that indirect beneficiaries, both at the central and local level, did not take adequate steps to properly address the inherent lack of proper segregation of duties (average scores 3.15 and 3.39, respectively).

In key PFBs at the central level, rules and procedures are in place that ensure information security (scores up to 4.50), while the score is somewhat lower in DBBs at the local level and PUCs (4.08 and 4.10, respectively). Looking at the restrictive approach to total resources, the overall average score is 4.48, (ministries – 4.61, NHIF beneficiaries – 4.69, local government bodies and services – 4.42), and is indicative of a high level of security.

b) The analysis of control activities in the field of IT infrastructure indicates the need to invest additional efforts in certain groups of PFBs (overall average score 3.89). At the central level, the MSIO and PE categories have mostly established control mechanisms in the area of procurement,

development and maintenance of IT systems (average score 4.50). On the other hand, users of NHIF funds need to improve this segment (3.83). At the local level, the situation is less propitious (average scores around 3.50).

Looking at public funds beneficiaries overall, we can observe a high degree of security of IT systems, given that appropriate procedures and rules are in place (overall average score of 4.23). At the central level, the MSIOs (5.00), PEs (4.75), other DBBs, other PFBs and beneficiaries of NHIF funds (average scores over 4.50) are taking the lead in this area.

c) The reports submitted by individual public funds beneficiaries suggest that insufficient action is being taken to eliminate the identified weaknesses in the internal controls system (3.53). MSIOs, ministries, other DBBs and PEs at the central level show better scores in this segment (above 4.00), while local authorities, as well as PUCs report average scores around 3.60.

The situation with activities aimed at preserving and improving the functionality and overall relevance of control activity policies and procedures is especially unfavourable, (overall average score 3.35). Only the categories of MSIOs and PEs largely meet the requirement that entail the need for periodic review of this system (4.75 and 4.07, respectively).

**4) Information and communication.** 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) Data from the submitted annual reports indicate that public funds beneficiaries have a good information basis in place for the functioning of the FMC system. The overall average score of 4.15 suggests that organizations have access to and use relevant and quality information. In most entities, and especially at the central level (average score 4.07), individual information needs are clearly defined. Information and communication systems enable the monitoring of the achievement of goals and supervision (overall average score 4.11), and access to information is provided to all employees on a need-to-know basis so that they can perform individual tasks (4.36). In these segments, all PFBs at the central level have very high scores (mostly over 4.50). The results at the local level are somewhat more modest (around 4.00), but still satisfactory.

b) Internal communication is also at a high level (overall average score 4.54). Managers of all categories of public funds beneficiaries receive timely and complete information necessary to perform tasks within their competence (scores over 4.50). In organizations that have a supervisory body, there is regular communication between the board of directors and management. At the central level, PEs and beneficiaries of NHIF funds have extremely high

scores (4.65 and 4.69, respectively). On this issue, other public funds beneficiaries at the local level (PUCs) reported an average score of 4.63.

c) When it comes to external communication, the overall average score of 4.19 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 4.56). On the other hand, the high overall average score (4.24) when it comes to the level to which management has access to and considers external information on trends and emerging circumstances that may have significant effects on the achievement of objectives requires additional analysis. This result is somewhat in conflict with low scores on the issue of mechanisms for identifying and responding to risks of internal and external changes (Principle 4 of "*Risk Management*").

All PFBs at the central level, with the exception of IBBs, are analysing existing procedures and methods of external communication to a good extent (average scores more than 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.

**5) Monitoring (supervision) 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 the organization a) design and continuously and/or periodically perform review activities and b) promptly analyse and communicate identified weaknesses, and subsequently follow up on corrective action.

a) The scores indicate that the activities related to the assessment of the state and functioning of the internal control system are still not sufficiently present in public sector institutions (overall average score 3.68). It is also a fact that smaller organizations often do not have adequate capacities to implement more 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 3.00). In this segment, the category of ministries, MSIOs and PEs have high scores (over 4.00), while IBBs lag significantly behind (IBBs at the central level - 2.46, and at the local level - 2.77).

The managements did not fully establish a mechanism for regularly reporting on the FMC system (3.53), except in the case of ministries and other DBBs at central level and the MSIO category. The situation at local level is even less propitious (average score 3.43). On the other hand, most organizations are regularly monitoring the achievement of objectives (4.20). The reasons for failure to meet set objectives are analysed to a good extent (3.99), with the local government authorities' category registering slightly lower scores (3.70).

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 3.22). A random glance reveals that only MSIOs (4.13) and to some extent ministries with administrative

bodies (3.81) and PEs (3.86) 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 reveals some problems (overall average score 3.20). Ministries, 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 4.00). On the other hand, the level of implementation of external audit recommendations is significantly higher (overall average score 4.20). The balance is tipped in favour of external audits in all PFB categories, with a particularly drastic difference in local government bodies and services (average scores of 3.23 and 4.76, respectively) and other PFBs at the local level (2.84 and 4, respectively). 62). These scores are indicative of, among other, the unfavourable status of internal audit within organizations.

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 (more than 4.00), even at the local level (excluding traditionally poorly rated IBBs).

It must be stressed that the high scores related to the acceptance and implementation of internal audit recommendations expressed by PEs at the central level deviates from the results of the quantitative analysis of data from annual reports on performed audits and internal audit activities. These results show that the total percentage of internal audit recommendations that were not accepted stood at 15.5%, and 81% of these refer to public enterprises (PEs) at the central level<sup>13</sup>. The CHU will further examine this issue in the coming period.

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 3.06). Of particular concern is the low score (2.96) of beneficiaries of NHIF funds.

Poor results in the segments of monitoring the implementation of action plans for the establishment of the FMC system and of actions taken in case of non-implementation of planned activities (3.03 and 2.68, respectively) need to be analysed taking into account that only 47.84% of PFBs have an action plan. If we consider only organizations that have an action plan for establishing a FMC system, the overall average scores will stand at 3.96 and 3.36, respectively. To illustrate, organizations from the category of ministries with constituent administrative bodies within their purview have adopted action plans (57.58% of PFBs from this category has adopted an action plan), largely monitor the implementation of existing ones (4.32), but still lag in terms of actions taken in case of failure to implement planned activities (3.79).

The establishment of audit committees was the worst-rated issue, with an overall average score of 1.52. PEs are the only category that has formed these advisory bodies for internal control

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<sup>13</sup> For more information, please refer to the report section "Recommendations provided and implemented".

issues to a relevant degree (average score 2.93). However, we note that the issue of audit committees is not applicable in most PFBs.

#### **2.1.4 Concluding remarks – elements of the FMC system, PFB categories, emerging trends, and perspectives**

In conclusion, key aspects of the control environment earned good scores (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 3.94. There is room for improvement in segments of FMC reporting, internal control training as well as employee performance management. When analysing the scores by government level, we observed that almost all PFBs at the central level, except for IBBs, have laid adequate groundwork to ensure the required level of structure and discipline (average scores above 4.00). In a positive sense, PEs stand out with an average score of 4.41. Certain weaknesses are discernible primarily at the local level (average scores lower than 4.00).

Additional efforts need to be invested in the sphere of risk management, which scored 3.76 on average, particularly at the local level (average score 3.69). The results suggest that local government bodies and services (DBBs) are not paying sufficient attention to the identification and analysis of potential events that could negatively impact the achievement of goals (average score 3.66). On the other hand, organizations at central level approach this issue much more seriously, primarily MSIOs (average score 4.73).

All goals of an organization (both strategic and operational) are affected by risks, as well as unforeseen circumstances that can negatively impact the goals and outputs of the organization, therefore special attention must be devoted to risk management. The average scores of different groups of PFBs indicate that risk management is the second weakest COSO element and that it should be further improved. Elements that give cause for optimism are evident only in the segment of articulation of goals, which is the basis of risk management. Improvements are still needed in all other segments of risk management. The sphere most in need of improvement is identification and analysis of risks associated with the achievement of goals, specifically related to updating the risk register according to the needs of the organization. In addition, the introduction of adequate change management in the PFBs could be facilitated by a more detailed elaboration of methodological materials on this topic, bearing in mind that the FMC Manual provided only a general overview of this issue. The most efforts toward improving change management need to be made in the case of IBBs at both central and local level. The assessment of the potential for fraud and corruption as a risk to the achievement of the goals needs to be strengthened in all institutions except DBBs at central level, as well as across the entire local government level.

When it comes to the segment of defining and implementing control activities through policies and procedures, most organizations at the central level achieved excellent results. The MSIO category is leading the way (average score 4.74), while ministries and other DBBs, i.e. PEs are

also reporting good results (average scores around 4.25). At the local level, the DBBs category has an average score of 4.00. The relatively modest overall score of this element of the FMC system (3.86) is primarily a consequence of the weaknesses shown by the IBBs, both at the central and local levels (average scores around 3.50).

The link between risk and control activities is essential and lower scores in these areas may be indicative of errors in work, overlap or duplication of business processes, or perhaps just lack of attention to these segments in the overall management of the organization by managers and insufficient awareness and knowledge in these areas. It appears that the size of the organization can be relevant and can influence the application of control activities in organizations, and one of the possible explanations (not the only one) is that smaller organizations lack the capacity to develop procedures.

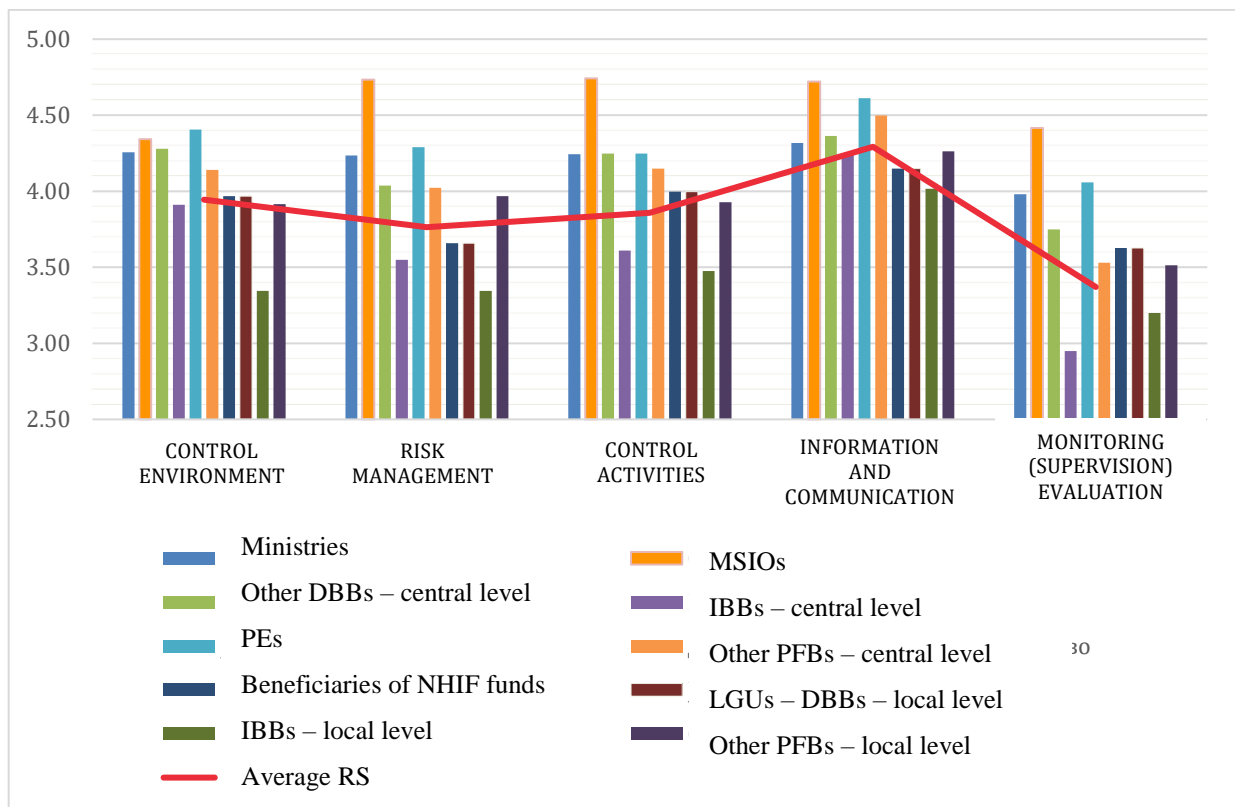
There is reason to be optimistic with regard to defining control activities, IT infrastructure design planning, and perception of IT security. While some control mechanisms are already built into business processes, in practice, we can conclude that business processes are not updated and improved on a regular basis, nor are control activities in the service of risk management revised regularly.

Information and communication systems are the best FMC segment, with an overall average score of 4.29. All categories of organizations, including IBBs, report averages above 4.00. At the central level, MSIOs (4.72), PEs (4.61) and beneficiaries of NHIF funds (4.54) particularly distinguished themselves. At the local level, the highest average score (4.26) was deservedly earned by the “other PFBs” category, which is mostly made up of public utility companies. Reporting and making information available is crucial and is one of the indispensable elements for the application of the managerial accountability concept.

The monitoring and evaluation of the FMC system is the worst rated area (overall average score 3.37) and the one in which the biggest range of average values was registered. Only MSIOs (4.42), PEs (4.06) and to some extent ministries with administrative bodies (3.98) were deserving of good scores. The low overall score is largely attributable to the lack of audit committees in most organizations. A poor result was expected, given the lack of internal auditors and internal audit units at PFBs at all levels. Solid scores in this segment were recorded only in the components of monitoring the achievement of goals and analysing the reasons for failing to achieve these. With the establishment and improvement of the internal audit function, the principles of this COSO framework element will be under greater scrutiny. Further progress can be expected following the implementation of irregularity management, which was introduced in the regulatory and methodological framework in 2019 and 2020 and which will be implemented in the next reporting period.



**Figure 1. Average scores for FMC system elements, by PFB category**



The analysis of results by tier and category of public funds beneficiaries shows that organizations at the national level in most cases show better results compared to the local level. The categories of MSIOs, PEs, followed by ministries with administrative bodies, and other DBBs at the central level, are generally taking the lead when it comes to assessing the state of the FMC system. When looking at the local level, the effects of administrative bodies (IBBs) and other PFBs (PUC) are more or less comparable. IBBs, both at the central and local level, had the worst scores in all elements. This outcome is not surprising, given that only a small percentage of entities in these categories (45.21% at central level, and 54.13% at local level) have a formally established FMC system<sup>14</sup>. The foregoing findings can certainly be linked to the IBBs’ management’s insufficient confidence in the added value of the FMC system (central level 3.68 and local level 3.60).

Based on the insight into the dynamics of the performance of public funds beneficiaries who have been regularly submitting their reports in the previous three years (reporting period 2017-2019), and looking only at those issues that have not changed in the meantime, the ensuing conclusion is that we have seen modest but stable progress. The average annual growth witnessed in all FMC elements and public funds beneficiaries stood at 2.91%. Overall average scores by components of risk management and control activities recorded the highest average annual growth rate (4.43% and 4.61%, respectively). Information and communication had the lowest growth rate of average scores (0.90%), which is understandable, considering the high initial average score. Ratings for the control environment are growing at an average annual rate of

<sup>14</sup> A manager responsible for FMC has been appointed and/or a working group was established to introduce and develop the FMC system.

2.60%, and for monitoring (supervision) and assessment at a rate of 2.36%. The scores of organizations at the local level are growing at a slightly higher average annual rate (3.39%) compared to the central level entities (2.54%). Among the individual categories of public funds beneficiaries at the central level, the highest average annual growth rate of average ratings was recorded by PEs (3.99%) and IBBs (2.85%). At the local level, IBBs (3.98%) and other PFBs (3.88%) are progressing at the fastest pace.

### **2.1.5 FMC from the perspective of public funds beneficiaries: analysis of open issues**

In addition to the self-assessment questionnaire, annual reports of public funds beneficiaries also include a concluding chapter addressing open issues, which is a review of:

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

In addition to reviewing statistical data, a qualitative analysis of open issues is performed (on a sample of more than 200 individual PFB reports). 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.

#### ***Common observations for all PFB groups:***

1. All categories of PFBs cited the **lack of human resources** as an issue – both in terms of numbers and qualifications (competencies). At the same time, DBBs at central level mostly highlighted the problem with loss of quality and experienced staff, while at local level the main problem is the insufficient number of staff and huge workload per employee.

2. The problem of **lack of professional knowledge and skills in the field of the FMC system** of employees tasked with integrating FMC tools, as well as the need for educating managers at all levels, FMC coordinators, etc. The solution to this problem would be to further improve training and methodological materials in the field of FMC.

3. Public funds beneficiaries also reiterated the need for trainings, methodological materials and tools that are **tailored** to various types of beneficiaries and the specificities of the organizations, the nature of their activity and structure.

4. The PFBs reiterated the need for experience exchange between similar types of PFBs, through networking and establishing software platforms, i.e. organizing roundtables by type of PFB or departments, as support to operational staff working in FMC;

5. Some PFBs are still in the phase of establishing the FMC system, while others have already advanced in its implementation, and therefore face different challenges. The first PFB group, which is in the initial phase of appointing a working group, adopting an action plan and conducting a self-assessment, points out the lack of knowledge and skills for mapping business

processes, flow charts and internal procedures, difficulties in adequately defining the organization's goals and related risk identification and development. risk register and risk management strategies. Problems in FMC implementation in the PFB group which has implemented FMC to some extent, testify to the need for establishing specific relationships between processes and sub-process activities to identify risks and measure their materiality; the lack of adequately set business process goals and measurability criteria; inadequate connection of certain business activities; and the need to ensure and raise the quality of the system. These beneficiaries pay attention to continuous monitoring and revision of policies and procedures, monitoring external changes in the control environment and organizational structure, review and verification of existing internal controls, improvement of communication and monitoring systems to provide timely and quality information for top management to set the groundwork for good strategic decisions to be made.

6. Development of software applications for reporting and monitoring.

### **Central/Republic level: ministries, MSIOs, other DBBs**

*This group of PFBs consists of:*

- Ministries with constituent administrative bodies (administrations, inspectorates and directorates);
- MSIOs;
- Government services and offices and special organizations;
- Independent and autonomous state authorities;
- Judicial bodies (DBBs).

Most PFBs in this group are small organizations, except for MSIOs and a couple of ministries with large administrations in their composition. The results of the self-assessment in all categories exceed the national average and suggest that the FMC is in an advanced stage of implementation, that the most important elements of the system are in place to a good extent and functioning, as well as that beneficiaries are committed to their improvement.

PFBs from this category listed **the following key issues and observations:**

1. the need for **strengthening accountability of managers and employees** as these PFBs are the most visible and leading group that sets an example for other PFBs and influences their motivation and drives them to action;
2. the need for drafting instructions for the development of FMC systems in small-sized, insufficiently staffed PFBs, and this need was met by the CHU and **FMC Guidelines were prepared for small PFBs** in the first half of 2020;
3. the need for **cascading the FMC vertically** to lower organizational levels in **complex organizations**;
4. the need for **practical support** to managers and key staff in the process of changing the management method by shifting to a performance and results-based approach;

5. PFBs that introduced a certified quality management system according to the International Organization for Standardization (ISO) standards, pointed out the problem of parallel procedures for demonstrating compliance with the ISO and COSO framework.

### **Public enterprises**

Public enterprises perform an activity of common interest and are subject to the law on public enterprises. The founder of public enterprises at the central level is the Republic of Serbia, while the founders at the local level are LGUs. Considering that the COSO framework originated from the private sector, its implementation in enterprises is likely to be more straightforward, and the companies themselves are more flexible than public administration institutions. Public enterprises at central level are taking the lead compared to the other groups in areas such as risk management and monitoring and evaluation, which most PFBs considered problematic, but also in terms of the volume of FMC reporting. Internal audit coverage in this group is better than in most other groups of beneficiaries. When it comes to the quality of the COSO framework, public enterprises at the local level demonstrate the same level of quality as the national average.

A number of PEs and PUCs have valid, internationally recognized **ISO certificates** (ISO9001 quality management system certificate, ISO27001 information security management system certificate, ISO 14001 environmental management system certificate), as well as the IMS procedures – Integrated management system and controlling function, so in the reports submitted by the beneficiaries from this category whose responses were subject to analysis, it was stated that many requirements were fulfilled specifically through these systems. The PFBs stated the need for defining the method of FMC implementation for the PFBs that possess the certified quality management system in accordance with the ISO 9001: 2015 requirements as well as the need to consider the relationship and compliance with FMC in order to avoid overlapping.

### ***Public enterprises and companies majority-owned by Republic of Serbia***

In Serbia there are 39 public enterprises and companies at central level subject to the Law on Public Enterprises.

This category is characterized by the following **specificities**:

1. this group established the highest number of audit boards and committees, which are particularly important for monitoring and developing the overall internal control system;
2. public enterprises have indicated that there are too many requests for reporting by different institutions on similar issues and that such requests need to be rationalized and harmonized;
3. the need to improve the efficiency of communication with the competent institutions.

### ***Public utility companies***

Serbia has a significant number of PEs/PUCs at the local government level (around 600 active ones). PEs/PUCs are financed by the services they charge on the market, but also through subsidies from the budget of local government units which are their founders.

Some of the **issues and specificities** indicated by PFBs from this group are as follows:

1. drain and lack of motivation of highly qualified personnel, especially internal auditors;
2. frequent changes in management, restructuring and status changes which result in lower overall performance of these companies, also in the FMC area, and corroborate the need for stabilizing the control environment;
3. restrictions in regulations affects the regular assessment of staff competencies and performance and the related rewarding system;
4. the risks of fraud and corruption are not taken into account in the risk identification process, nor is attention paid to identifying and addressing system weaknesses;
5. insufficient connectivity between IT systems and absence of electronic job orders in all major business processes;
6. the key performance indicators of the system have not been defined.

### **Autonomous province and local government units<sup>15</sup>**

Public funds beneficiaries that fall into this category are bodies and organizations at the provincial level, in municipalities, cities and the City of Belgrade. As far as FMC reporting and IA are concerned, the situation in cities is satisfactory but not so satisfactory in the municipalities, as the process of establishing the system is still in its infancy in many municipalities, which is directly related to the IA function. The average score at the provincial level for all elements of the COSO framework is higher than at local government level.

*Issues and suggestions indicated by cities and municipalities are as follows:*

1. shortage of staff required to effectively supervise many IBBs in order to increase accountability for the lawful and purposeful spending of public funds;
2. lack of a systemic mechanism for monitoring the performance of IBBs within their purview;
3. the need to consolidate reporting on FMC at provincial level and at the local government level;
4. weakening of the capacity of the FMC system of public funds beneficiaries due to frequent changes in the internal organization and relocation of employees;

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<sup>15</sup> Excluding the territory of Kosovo and Metohija. Considering that local government units from the territory of Kosovo and Metohija have been working in difficult conditions and specific circumstances since 1999, their activity is subject by specific provisions and organization. Given the above, organizations from the territory of Kosovo and Metohija were unable to submit their annual FMC reports.

5. smaller local government units reported that establishing adequate segregation of duties was impossible due to shortage of staff;
6. the inability to adequately reward employees for their performance with a view to increasing and maintaining motivation to enhance performance;
7. lack of procedures for reporting suspected fraud and corruption, i.e. for identifying and reporting on system weaknesses.

### **Indirect budget beneficiaries**

This group of beneficiaries is the group with the lowest scores in terms of results of self-assessment, and at the same time the most numerous one. The average values cannot be used as a benchmark for drawing conclusions on the group, due to significant variations within the group, considering that this group includes public sector organizations with entirely different activities (schools, universities, libraries, cultural establishments, archives, preschool institutions, healthcare institutions, judicial bodies that do not fall in the direct budget beneficiaries category and similar).

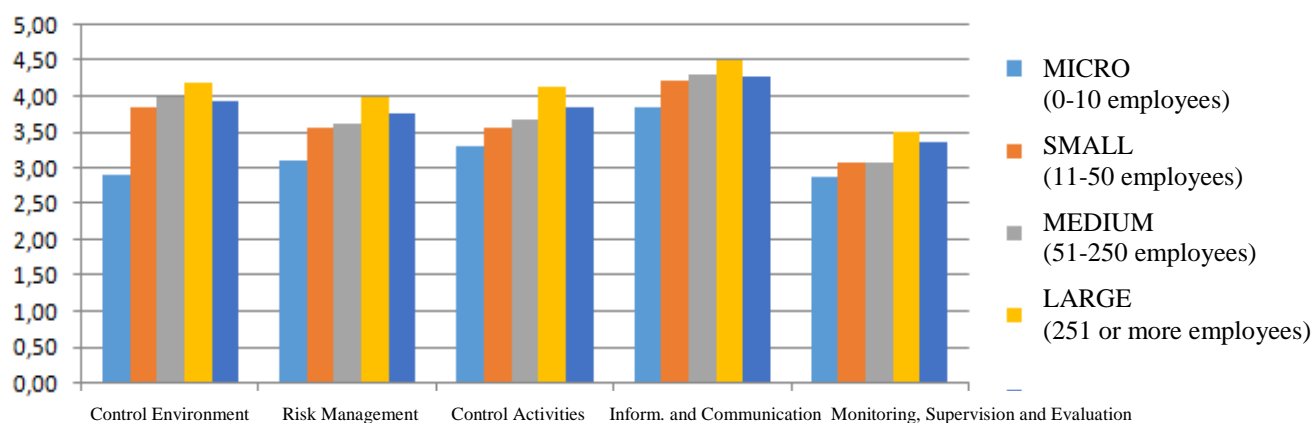
IBBs are grouped by department and type of activity. There are large systems with several thousand employees, but also many small organizations. These fall within the purview of one of the direct budget users. The IBB category has the largest number of small institutions with few employees and smaller budgets, i.e. expenditures and disbursements in the reporting period.

Direct budget funds beneficiaries influence the goals of indirect budget beneficiaries by defining overall strategies for the relevant area and determining the activity framework (prescribing the actions of indirect budget beneficiaries in their purview), and also determining the scope and purpose of funds for the next budget year. With this in mind, most indirect beneficiaries emphasize the need to improve cooperation with direct beneficiaries in terms of the flow and timeliness of information, taking into account the dependent position of indirect beneficiaries in decision-making, obtaining recommendations and instructions, and expert support, especially with the introduction of FMC.

An analysis of this beneficiaries' group revealed that the size of the organization has a decisive influence on the perceived quality of the COSO framework by the organizations.

Figure 9 shows the average scores of indirect budget beneficiaries categorized by number of employees, by COSO element.

### **Figure 2. Overview of COSO elements of indirect budget beneficiaries categorized by number of employees**



With the exception of large indirect budget beneficiaries, the scores of all other groups of indirect budget beneficiaries are below the national average.

***Issues and observations by this category of PFBs:***

- relationship and communication between direct and indirect PFBs was listed as a particularly significant issue which is reflected onto the FMC system, Indirect PFBs suggest that direct PFBs should support its indirect beneficiaries in the development of necessary procedures and business process maps, according to the type of organization;

- an additional issue is the excessive number of reports requested by different institutions. The proposal is to change the reporting requirements and tailor them to indirect beneficiaries, (especially the ones with a limited number of employees and budgets);

- small indirect budget beneficiaries also highlighted the lack of awareness as well as lack of training of managers about FMS.

**Beneficiaries of the National Health Insurance Fund funds**

In view of the specific type of services provided to citizens by PFBs that fall in the group of beneficiaries of NHIF funds, their proper functioning is a top priority for Serbia. Typical representatives of this group of beneficiaries are clinical centres, hospitals, community health centres, pharmacies, and institutes.

Some, mostly the larger healthcare institutions, act with due diligence in providing services to their clients and report having some of the quality assurance systems in place (ISO 9001, 14001, 18001).

The issues this group of PFBs is facing in practice are affected by the type of activity, their organization and personnel structure, specifically:

- insufficient administrative capacities of non-medical staff in circumstances of shortage of certain specialized medical staff;
- lack of training of PFB managers and staff when it comes to the basics of the FMC system;
- issues with inadequate monitoring and supervision.

### **2.1.6 Quality review of financial management and control systems**

In order to establish and strengthen the FMC system quality review function at PFBs, a special group was established in 2018 within the CHU, and in 2019, in accordance with the plan, quality reviews of the FMC system were performed in two PFBs: in the National Employment Service (NES) and the Commissioner for Information of Public Interest and Personal Data Protection. Given that this is a newly established function, these two exercises were an opportunity to prepare a methodology for FMC system quality reviews conducted by the CHU, and train CHU staff to perform this type of reviews. The CHU had the support of the Twinning and GIZ projects in this activity.

The aim of reviewing the quality of the financial management and control system (hereinafter: quality review) is to evaluate the existing FMC system, to conduct an evaluation and to support public funds beneficiaries in meeting PIFC standards in the most appropriate and rational manner. The approach in these quality reviews was to assess the 5 basic components of the COSO framework and related 17 principles.

Taking into account the results and conclusions reached in the quality review, the FMC systems in both institutions were assessed as satisfactory, with only some minor weaknesses and shortcomings identified, based on which adequate recommendations were made for further improvements of the system. In both institutions, all components of the COSO framework were established in a satisfactory manner. Weaknesses and shortcomings were identified in risk management, human resources management and information security. An action plan was prepared for both institutions to eliminate the identified weaknesses, the implementation of which will be reported to the CHU. The general impression on FMC systems in the two selected institutions, which are completely different in terms of size and type, is that their FMC systems are very much alike. The management places appropriate emphasis on the quality of the system and implements measures to overcome existing risks in a timely and proper manner. Key results and progress towards achieving the goals are clear, visible and regularly monitored. Regular monitoring of achievements, findings and recommendations and corrective actions based on internal and external audit is established and at a high level. Monitoring and monitoring the progress of the FMC system is carried out by individual annual reports of organizational units, as well as the annual report on the introduction and development of FMC, which are standard monitoring procedures. The general impressions on the FMC systems in the two selected institutions, which are completely different in size and type, is that they are in reality very similar. The management places appropriate emphasis on the quality of the system and implements measures to overcome existing risks in a timely and proper fashion. Key results and progress towards achieving the goals are clear, visible, and regularly monitored.

Regular monitoring of achievements, findings, recommendations, and corrective action, based on internal and external audit, is in place and at a high level. The progress of the FMC system is reviewed and monitored through the individual annual reports of organizational units, as well as the annual report on the introduction and development of FMC, which are standard monitoring procedures.



Numerous examples of good practice have been identified that need to be promoted to raise awareness of and disseminate these in the FMC systems of other organizations. One such example is the formation of a special organizational unit that monitors the preparation process, provides clarifications or advice, and reviews internal controls. This practice is applicable in similar organizations where the circumstances are appropriate and in which the human resources management policy allows the formation of a similar unit.

Yet another good practice example is the implementation of ISO standards, which are not necessarily in conflict with the COSO principles (on the contrary, they even complement them), so that organizations applying these standards can benefit in many ways from the certification process. By applying ISO security standards, important groundwork is laid for adequate segregation of duties, for establishing a system for planning business continuity and system recovery in emergency situations. In addition to ensuring business continuity, its other major goal is to protect and prevent the loss of data, which is one of the requirements of relevant legislation. COSO principles, as well as ISO standards, have common requirements, such as compliance with regulatory requirements, internal leadership processes, system quality improvement, as well as requirements related to evaluation, control, auditing, and monitoring. These are just some of the examples that illustrate how an organization can use both quality systems (ISO standards and FMC system) to ensure the proper administration of its business affairs.

Performance Agreements concluded on a yearly basis between the Ministry of Labour, Employment, Veteran and Social Affairs of Serbia and the National Employment Service should also be highlighted as an example of good practice. These agreements envisage the obligations and responsibilities of the NES in achieving set goals. Specific measures pertaining to active employment policy to be implemented by the NES are defined, established, and aligned herein, including the total number of clients, as well as persons with disabilities to be included in each measure. The agreement also envisages the expected impact of these measures. Furthermore, it also lays down the time frames for the implementation of the set goals, NES tasks, data on the budget within the limits set by the financial framework, as well as reporting requirements.

The practice of disseminating information to all relevant organizational units about identified weaknesses or irregularities, for the purpose of eliminating or preventing them, is yet another example that should be presented to other organizations that could benefit from it.

## **2.2 Internal audit**

### **2.2.1 Scope of internal audit**

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. The template of the 2019 annual report was updated to include a set of six additional questions. Please refer to the questionnaire in Annex 5.

According to processed data, a total of 475 public funds beneficiaries submitted their annual reports on audits and internal audit activities for 2019.

This section of the report provides an overview of the scope of internal audit, analysed in the context of the largest and most significant PFBs i.e. direct budget beneficiaries at the central and local level, as well as the major PFBs in terms of the budget size and staff capacity. If the audit scope were to focus on analysing the share of PFBs that have established the internal audit function, such an analysis would not be relevant or meaningful, given the many small PFBs. In addition, the official List of PFBs of the Treasury Administration in some cases, in addition to organizational units, includes the accounts of individual public sector bodies and organizations, so that the analysis of internal audit coverage cannot only be based on the number of PFBs on this list.

As shown in Table 3, the criterion of internal audit coverage is a functional internal audit in place, defined as compliance with the requirement for PFBs to issue at least one audit report in the reporting period.

**Table 3. Coverage of IA by category of PFB, analysed in the context of Chapter 32**

Coverage of IA	Total number of PFBs per category	Number of PFBs with a functional IA <sup>16</sup>	% of PFBs that have a functional IA relative to the total number of PFBs	% budget coverage by functional IA, by PFB category	Number of PFBs with filled-in IA unit with minimum three auditors	% of PFBs with filled-in IA unit
<b>Ministries</b>	18	16 <sup>17</sup>	89%	87%	7 of 18 required	39%
<b>Other direct budget beneficiaries at central level</b>	86	17	20%		3 of 9 required	33%
<b>MSIO</b>	4	4	100%	100%	3 of 3 required	100%
<b>AP Vojvodina</b>	1	1	100%	100%	1 of 1 required	100%
<b>Cities<sup>18</sup></b>	28	17	61%	86%	6 of 28 required	21%
<b>Municipalities<sup>19</sup></b>	117	20	17%	22%	-	-
<b>Public enterprises at central level</b>	39	21	54%	85%	6 of 15 required	40%
<b>Total:</b>	293	96	33%		26 of 74	35%

Direct budget beneficiaries at central level (ministries, administrations, judicial bodies, budget-based Funds, directorates, offices, services...) with a functional IA account for approximately **87% of total expenditures and disbursement of the budgets of direct budget beneficiaries of the Republic of Serbia at central level for 2019<sup>20</sup>**. The aforesaid budget also includes the budgets of indirect beneficiaries that are within the purview of direct budget beneficiaries at the central level of government, except for the Ministry of Labour, Employment, Veteran and Social Affairs, which did not carry out internal audit activities in its indirect budget beneficiaries due to insufficient capacities.

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

<sup>16</sup> A PFB that has a functional IA meets the requirement of having issued at least one audit report in the reporting period.

<sup>17</sup> This number also includes the Ministry of Youth and Sports, in which internal audit activities are performed by a person engaged under a Temporary and Occasional Work Contract.

<sup>18</sup> Excluding local government units from the territory of AP Kosovo and Metohija. Considering that local government units from the territory of Kosovo and Metohija have been working in difficult conditions and specific circumstances since 1999, their activity is subject by specific provisions and organization. Given the above, local government units from the territory of Kosovo and Metohija were unable to submit their annual reports on the IA activity.

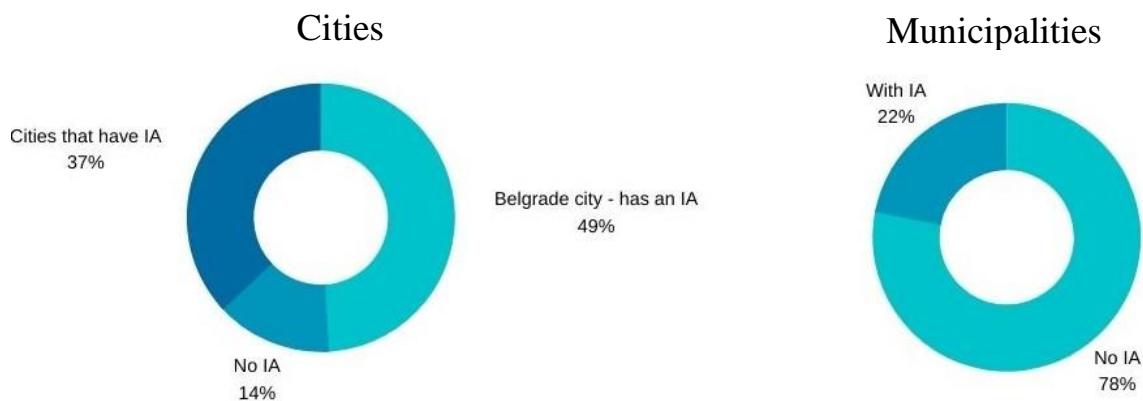
<sup>19</sup> Ibid.

<sup>20</sup> The percentage of coverage was calculated on the basis of data from Article 8 of the Law on Budget of the Republic of Serbia for 2019 (RS Official Gazette No. 95/18 and 72/19).

The Autonomous Province of Vojvodina has established a functional internal audit unit that performs internal audit activities in direct and indirect budget beneficiaries of the Autonomous Province of 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. The analysis determined that 17 out of a total of 28 cities<sup>21</sup> have functional IAs, which makes 86% of the expenditures in 2019, in this category. The situation is worse in the case of municipalities, as only 20 municipalities have functional IAs and, together, these cover 22% of realized expenditures in 2019 in this category of PFB. The cities of Čačak, Leskovac, Šabac, Zaječar, Sombor, Kraljevo and Vršac did not submit their Annual Reports for 2019.

**Figures 3 and 4. Coverage of budgets of cities and municipalities by the IA function in 2019**



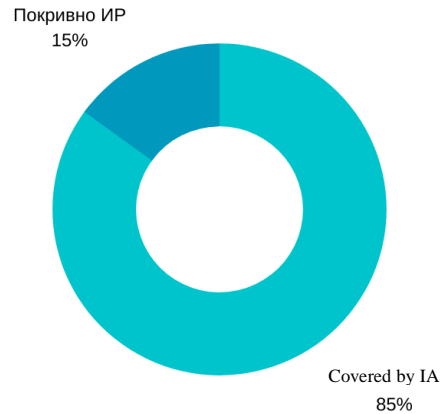
Out of total 39 public enterprises and companies at the central level of RS subject to analysis and which are performing an activity of public interest subject to the law on public enterprises, 21 has a functional IA, which accounts for 54% of the total number in this category. These entities are the largest ones in the sample, both in terms of their budgets and the number of employees, so, budget coverage for 2019 in this category stood at 85%, which is presented in Figures 5 and 6.

**Figure 5. Coverage of total revenues of public enterprises in 2019 by internal audit**

Not covered by IA

<sup>21</sup>Excluding local government units from the territory of AP Kosovo and Metohija. Considering that local government units from the territory of Kosovo and Metohija have been working in difficult conditions and specific circumstances since 1999, their activity is subject by specific provisions and organization. Given the above, local government units from the territory of Kosovo and Metohija were not able to submit their annual reports on the IA activity.

Also, looking at the group of the most important<sup>22</sup> 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.



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

- The MSIO category and the Autonomous Province of Vojvodina have the required number of internal auditors;
- In the ministries category which are required to have a fully staffed internal audit unit<sup>23</sup>, only a small share, seven of them, i.e. 39% of ministries, have met this requirement. This year, too, the number of internal auditors in this category has stagnated compared to the previous two years. As many as three ministries do not have a single full-time internal auditor, which was the case in 2017 and 2018 as well;
- Considering that there has been a decline in reporting by cities this year, according to the received annual reports, 61% of cities have a functional internal audit. Pursuant to Article 6(1) of the IA Rulebook, cities are required to have an independent internal audit unit with minimum three internal auditors, but only 21% of cities have complied with this requirement;
- In the category of public enterprises at the national level, 15 of them have over 250 employees and the obligation to set up an internal audit unit with three auditors but this obligation was met by only 6 of them (40% of the category that is required to have an IA unit);
- Offices and other direct budget beneficiaries, as well as municipalities, do not have a satisfactory coverage by functional IA.

### 2.2.2 The IA function

In this section of the report we examine the issue of functional internal audits at the level of the entire public sector, i.e. total population of public funds beneficiaries.

In 2019, a total of 475 public funds beneficiaries submitted their annual reports to the CHU. Of these, 168 annual reports were incomplete, while in 44 public funds beneficiaries the internal audit function is either not in place or its establishment is underway. According to submitted reports, 263 beneficiaries normatively established internal audit, which means that the IA has been established in accordance with one of the modalities listed in Article 3 of the IA Rulebook,

<sup>22</sup> For the purposes of this report the category of “most important” or “major” institutions is defined as the group of direct budget beneficiaries from the central level, the MSIOs, local government units and public enterprises at central level.

<sup>23</sup> Pursuant to Article 5(2) of the IA Rulebook.

by envisaging the positions of internal auditors in their staffing plans, or by signing an agreement as envisaged under Article 3(2) and (3) of the IA Rulebook.

**Figure 6. Number of reports submitted and number of PFBs with normatively established internal audits, by year**

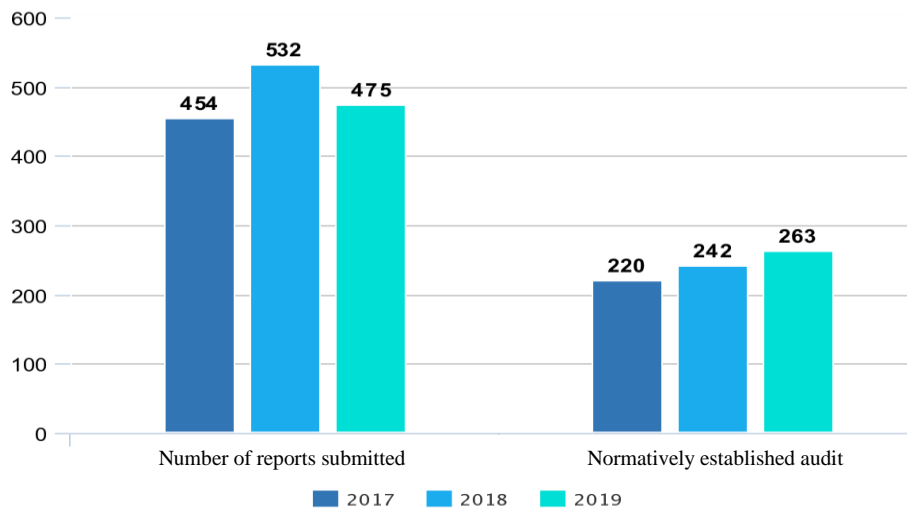


Table 3 shows the number of submitted annual reports, established internal audit functions, as well as the number of systematized and filled internal auditor positions in public funds beneficiaries. In 2020, the number of submitted audit reports decreased by 11% compared to 2019 due to the pandemic caused by the COVID-19 virus. Nevertheless, based on the received reports and results, we can conclude that nearly all the most important PFBs that have internal audits in place submitted their annual reports for 2019.

*Annex 4* provides a detailed overview of the number of beneficiaries per category of PFB that have established the internal audit function.

**Table 4. The number of PFBs in RS that submitted their reports and established internal audits with systematized and filled internal auditors' positions in 2019**

PFB	Reports submitted	Normatively established IA	Functionally established IA	Systematized positions	Filled positions
<b>Central/ Republic level</b>	303	148	113	416	311
<b>Local level</b>	172	115	74	216	174
<b>Total in RS</b>	<b>475</b>	<b>263</b>	<b>187</b>	<b>632</b>	<b>485</b>

**Figure 7. The number of systematized and filled internal auditor positions in PFBs**

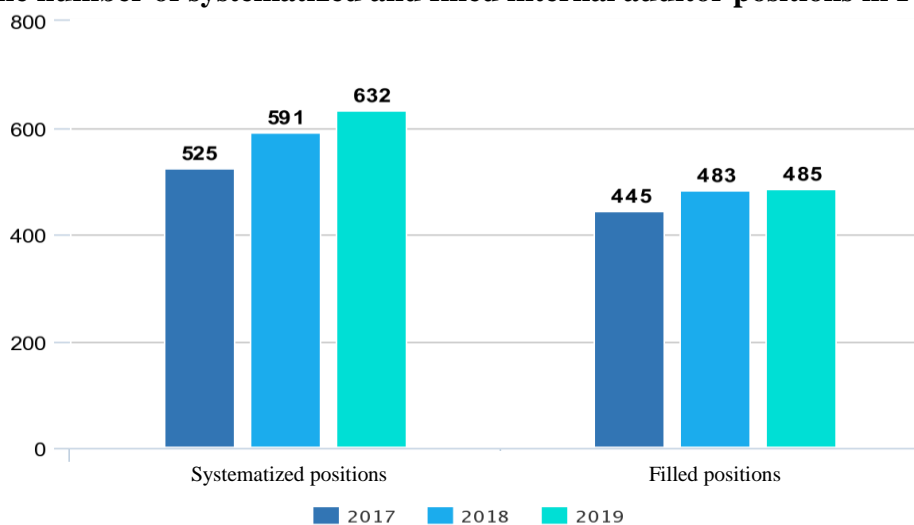


Table 4 shows the total number of internal audits established, internal auditor positions systematized and filled in PFBs for 2017, 2018 and 2019. The presented data reveal that 263 PFBs have a normatively established internal audit function, which is a 9% increase in 2019 relative to the previous year (2018).

Also, we can conclude there has been a 7% increase in the number of systematized jobs and a 0.4% increase in the number of filled positions in 2019 compared to the previous year (2018). Overall, we have witnessed a positive trend in the development of the internal audit function in the previous period. That said, we are also seeing a notable decline in the growth rate of the number internal auditor positions filled, i.e. stagnation. The decline in the number of positions filled is most pronounced at the central level of government, which is shown in more detail in *Annex 4 – Overview of PFBs that have established internal audit functions*.

This situation is a result of the employment restriction in the public sector as part of Serbia's package of austerity measures, still in force, and also of non-competitive salaries in the public sector relative to the private sector, as well as staff attrition (retirement), which leads to the loss of internal auditors by the public sector and difficulties in the recruitment of new ones. These

facts are also supported by the information taken from the Report<sup>24</sup> 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 a high 13.3% will meet the statutory requirements for retirement in 2021, which is a significantly higher share than in all other areas of work (twice higher than the first next job group).

**Table 5. Total 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 normatively established IA	Systematized IA positions	Filled IA positions
<b>Total in RS in 2017</b>	220	525	445
<b>Total in RS in 2018</b>	242	591	483
<b>Total in RS in 2019</b>	263	632	485

As shown in Tables 5 and 6, according to the received reports, an internal audit unit is in place in 35% of the 263 public funds beneficiaries in which the internal audit function is normatively established, whereas in 57% one internal auditor position is envisaged in the staffing plan. Three percent of public funds beneficiaries have an internal audit function established under an agreement for providing IA services stipulated with another public funds beneficiary who has a functional internal audit unit. It is evident that the dominant modality of establishing the IA function is by appointing one internal auditor, as no other modality would be rational for many small PFBs. Also, the other modalities, i.e. signing an agreement on the performance of internal audit by another PFB, or establishing a joint internal audit unit, are not sufficiently prevalent because the existing internal audit units are not running to full capacity, i.e. they are not sufficiently staffed with internal auditors.

**Table 6. The number of PFBs with normatively established IAs, by IA setup in 2019**

IA setup modality	Number of PFBs
Internal audit unit	91
Joint internal audit unit	0
Agreement on the implementation of IA by another PFB	7
Internal auditor	150
Other (outsourcing internal auditors under a service contract, audits performed by the holding company in the subsidiary company)	15
<b>Total:</b>	<b>263</b>

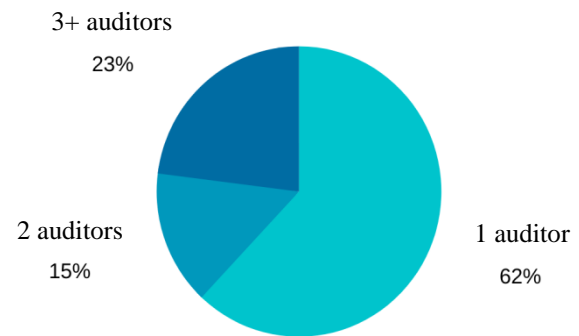
<sup>24</sup> Report of the Human Resources Management Service on the situation regarding the drain of personnel and proposal of measures for retention of staff and prevention of staff loss impact on the smooth operation of state administration bodies of September 2019 (p. 11).



Regarding the functional internal audit, determined according to the criteria of at least one audit report issued to the management in the reporting period, at the level of the entire public sector, a total of 187 public funds beneficiaries have established a functional IA.

**Figure 8. Number of auditors in PFBs with functional IAs in 2019**

Out of this number, the percentage of public funds beneficiaries that established the IA function with one internal auditor position filled stood at 65%, with two internal auditors 15%, and with three or more internal auditors 23%. The fact that a significant share of functional internal audits in place that have two or fewer internal auditors raises doubts as to whether internal auditing standards can be fully met.



The most frequently stated reasons for employing only one internal auditor to perform the internal audit work or for not filling the internal auditor positions are legal restrictions on the maximum number of employees, insufficient number of highly qualified staff, low salaries in the public sector, inadequately systematized positions compared to the workload and its complexity, insufficient funds, lack of formal requirements, competition from the private sector, etc.

Due to the foregoing reasons, the number of internal audit functions established has been experiencing only a modest growth in recent years. The recruitment of internal auditors is a major issue, 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 issue.

In the newly established internal audits, where the internal auditors have not yet been involved in the training process organized by the CHU, the reports state that a significant amount of staff time is spent on dealing with other tasks outside the scope of internal audit activities.

Because of insufficient staffing of internal audit units, it is usually not possible to ensure compliance with Standard 1300 – Quality Assurance and Improvement Programme. In 66% of the established internal audit units, the chief audit executive did not develop a programme to ensure and improve the quality of internal audit activities. Internal quality reviews, as an integral part of the programme, are performed by only 43% of internal audit units. The reasons provided were the insufficient number of internal auditors, the inability to fill the position of chief audit executive, or the lack of instructions for internal evaluation from the CHU. In June 2020, the CHU published the Model for Internal Evaluation of the Performance of Internal Audit Units on the website of the Ministry of Finance.

The data on **salaries of internal auditors** in PFBs in the submitted annual reports reveal inequalities in salaries in different categories of PFBs. The lowest average salaries earned by internal auditors are seen in ministries, MSIOs and direct and indirect budget beneficiaries at the local level. To encourage employment in these PFBs, and particularly in the ministries as the most relevant PFBs, a balance should be stricken between salaries of internal auditors and the rest of the public sector. Otherwise, there is a risk of delays in the development of the internal audit function due to the inability to attract and retain qualified staff to perform this important function.

The audit board, as an advisory body for internal audit issues was established in 19 PFBs, specifically in 16 public enterprises and companies at the national level, and in 3 PFBs from the “other PFBs” category.

### **2.2.3 Planning and evaluation of work**

According to the IA Rulebook, internal audit is conducted based on the strategic plan, the annual plan approved by the managers of the PFBs, 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 auditee.

### **2.2.4 Overview of performed audits**

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

**Table 7. Number of planned, implemented, unplanned and pending audits in 2019 by type of PFB**

PFBs		Number of audits in 2019			
		Planned audits	Conducted audits	Subsequently planned audits, "on demand"	Audits not implemented <sup>25</sup>
Central/ Republic level	Ministries (with constituent administrative bodies) <sup>26</sup>	118	101	13	30
	MSIO <sup>27</sup>	48	53	5	0
	Other direct budget beneficiaries <sup>28</sup>	51	48	1	4
	Indirect budget beneficiaries <sup>29</sup>	17	14	2	5
	Public enterprises at central level <sup>30</sup>	193	178	9	24
	Other public funds beneficiaries <sup>31</sup>	86	77	9	18
	Beneficiaries of NHIF funds <sup>32</sup>	68	49	13	32
	<b>Total</b>	<b>581</b>	<b>520</b>	<b>52</b>	<b>113</b>
Local level	Direct budget beneficiaries of LGUs <sup>33</sup>	173	160	30	43
	Indirect budget beneficiaries of LGUs <sup>34</sup>	0	0	0	0
	Other public funds beneficiaries (PUC and similar) founded by the local government <sup>35</sup>	131	101	44	74

<sup>25</sup> Audits that were not implemented or are ongoing as at the date of reporting.

<sup>26</sup> Ministries, administrations and directorates.

<sup>27</sup> NHIF, Military Social Insurance Fund, PDI fund and National Employment Service.

<sup>28</sup> Other DBBs except ministries and their constituent administrative bodies – Government services and offices, special organizations, independent and autonomous state agencies, judicial bodies that are direct budget beneficiaries, administrative districts...

<sup>29</sup> Schools, faculties, judicial bodies that do not fall in the direct budget beneficiaries' category, social welfare centres, cultural establishments...

<sup>30</sup> Business companies performing an activity of public interest subject to the Law on Public Enterprises.

<sup>31</sup> Public agencies, scientific institutions (institutes), national councils, business companies in which more than 50% of capital or 50% of votes in the management board is directly or indirectly controlled by the state, as well as other legal entities in which public capital accounts for more than 50% of revenues earned in the previous business year (not counting PEs).

<sup>32</sup> Health care facilities and pharmacies.

<sup>33</sup> Bodies and services of the autonomous province and local government units (Vojvodina, cities, municipalities).

<sup>34</sup> Cultural institutions, funds, preschool institutions, local community offices. Internal audit of indirect budget beneficiaries (IBBs) at the local level is performed by the direct budget beneficiaries administering these IBBs. Given that the IA Rulebook allows this category of PFBs to establish an independent IA unit, this category is presented separately. Since no independent IA units were established in these PFBs, the values of indicators for this category are equal to 0. The values for indirect budget beneficiaries at the local level are shown through the indicators for the direct budget beneficiaries that perform IA-related tasks on their behalf.

<sup>35</sup> Public utility and other companies founded by the autonomous province or local government unit, legal entities founded by these companies, and legal entities in which more than 50% of capital or 50% of votes in the management board is directly or indirectly controlled by the autonomous province of LGU, as well as other legal entities in which public funds account for more than 50% of revenues earned in the previous business year.

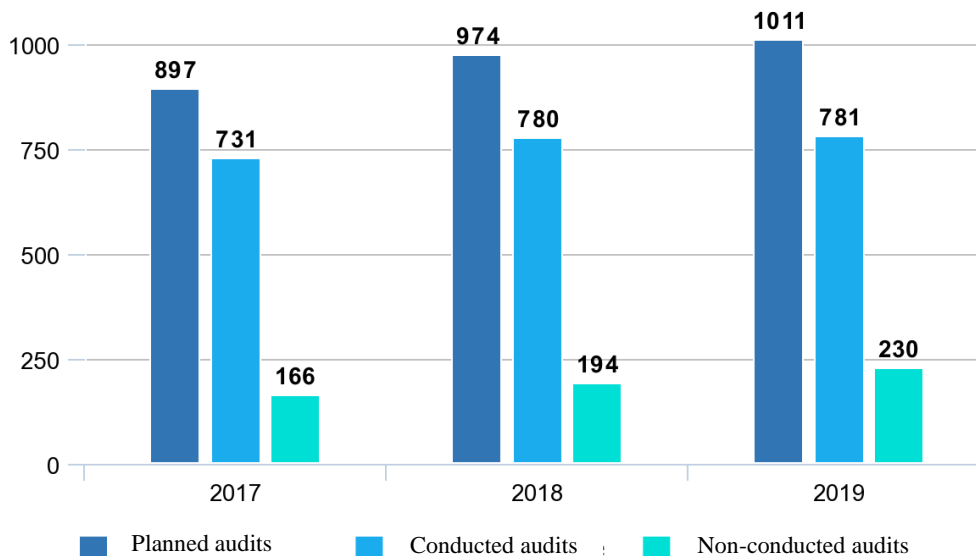
	<b>Total</b>	<b>304</b>	<b>261</b>	<b>74</b>	<b>117</b>
	<b>Total in RS</b>	<b>885</b>	<b>781</b>	<b>126</b>	<b>230</b>

According to the submitted IA activity reports, a total of 885 audits were planned in 2019, of which 781 audits were implemented, while 230 planned audits were not implemented. In the same period, 126 follow-up audits were conducted “on demand”.

**Table 8. Number of audits, by year**

Year	Total number of audits in 2017, 2018 and 2019			
	Planned audits	Implemented audits	Audits not implemented <sup>36</sup>	Consulting services
Total in 2017	897	731	166	279
Total in 2018	974	780	194	215
Total in 2019	1,011 <sup>37</sup>	781	230	242

**Figure 9. Implementation of the internal audit plan**



Relative to the previous period, we have seen a 19% increase in audit engagements not implemented relative to the previous year. The number of conducted audits was the same as in the previous year, while the total number of planned audits increased compared to the previous period, which resulted in a relative increase in audits not implemented. Bearing in mind that there was a slight increase in normatively and functionally established internal audits and that the number of filled internal auditor positions increased by 0.4%, the increase in the number of unimplemented audits in parallel with a stagnation in the number of conducted audits indicates a

<sup>36</sup> Including ongoing audits.

<sup>37</sup> The number of planned audits includes the subsequently planned audits “on demand”.

decline in audit engagement effectiveness. The reasons for this decline were examined on a sample and shown in the text that follows.

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

Year	Planned audits	Conducted audits	Not conducted audits
2017	3%	3%	4%
2018	9%	7%	17%
2019	4%	0%	19%

The most common causes for failure to meet the annual internal audit plan in PFBs were identified and analysed based on the selected sample of individual Annual Reports on Audits and Internal Audit Activities of Public Funds Beneficiaries for 2019. A sample of 106 out of the 307 annual reports that were processed was selected, which makes up 35% of the total reports. The sample included all ministries as well as the most important PFBs (by size of budget or number of employees) from each PFB category.

The following reasons were provided in the reports for deviations from the annual internal audit plan:

1. implementation of audits by the Supreme Audit Institution and activities related to the closing of the findings of these audits,
2. quality reviews of internal audit activities,
3. implementation of *ad hoc* audits and consulting services requested by entities or PFB managers,
4. limited human resources (lack of employees or decline in the number of internal auditors),
5. insufficient maturity of internal audit (newly established internal audit, ongoing CHU trainings or mentoring activities)
6. scale and complexity of audit engagements,
7. failure to submit a written report (audits and consulting services were carried out verbally, i.e. not in writing),
8. extraordinary circumstances,
9. ongoing audits (mostly performed in the reporting period but audit reports were issued in the subsequent period),
10. inadequate and overly ambitious planning,
11. introduction of technological innovations,

The main reasons reported by PFBs for failing to carry out all of the planned audits were: lack of staff, i.e. decline in the number of internal auditor staff (24% of the total number of audits could not be carried out due to limited human resources), insufficient maturity of internal audit (19%), activities related to unplanned audits and consulting services (19%), engagement of PFBs' internal audit staff in the implementation of audits by the SAI and closing the audit findings (16%). Several PFBs did not state any reason for deviating from the execution of the annual internal audit plan (25% of audits from the sample were not performed and the reasons were not stated). Some of the stated reasons, primarily the limited human resources, were the reasons for not conducting audits in previous years as well. Tables 9 and 10 show that in the

three-year period there was a constant increase in the number of planned audits with simultaneous growth of audits not performed. If we look at the selected sample, the results of the analysis show that 13% of audits out of the total number of unimplemented audits were not implemented due to inadequate and over-ambitious planning. See Annex 4 for more details.

**Table 10. Number of implemented/not-implemented audits in 2019 on a sample**

Planned audits	Total number of subsequently planned audits “on demand”	Total number of audits carried out with final reports issued	Total number of audits not implemented	Total number of consulting services for which final reports were produced
462	38	420	80	72

The 4% increase in planned audits compared to the previous year did not result in an increase in the number of conducted audits, which remained almost at the same level as last year. This resulted in an increase in the number of unimplemented audits relative to the previous period, which is indicative of certain shortcomings in the planning of internal audit activities (overly ambitious and inadequate planning) as well as of a decrease in efficiency in performing audit engagements. Deviations are possible in case of unforeseen circumstances that at the time of the making of the plan were not or could not have been known. When planning, the entities should take into account all known circumstances, such as regular annual audits, entry into force of new regulations and similar, as well as available human resources and their expertise. Prior to the adoption of the annual plan, meetings should be held with the main beneficiaries of the results of the internal audit work to assess and plan their needs regarding the engagement of internal audit in a timely manner. The annual internal audit plan should be periodically reviewed, and if necessary revised, with the obligatory consent and approval of the PFB manager. In addition, efforts should be invested to eliminate the causes for non-fulfilment of the annual internal audit plans to increase the efficiency of internal audit and ensure that it achieves its purpose and objectives.

### 2.2.5 Issued and implemented recommendations

Internal auditors issued a total of 7,249 recommendations for improvement of operations and reduction of identified risks to an acceptable level. In the 2019 reporting year 3,943 recommendations were implemented, 1,306 recommendations have yet to be implemented, but the deadline for their implementation has not expired yet, while 785 recommendations were not implemented past the deadline. The number of recommendations issued in 2019 relative to the previous year has remained almost at the same level (registering a 1% decline relative to the previous year). An unfavourable trend is the increase in the number of recommendations not implemented. This trend indicates the need for transparent delegation of responsibilities for the implementation of internal audit recommendations, regular reporting and reporting on the status of implementation of recommendations, as well as the need for regular implementation of *ex-post* audits.

A breakdown of recommendations by area reveals that the two areas that recorded a decline in the number of recommendations relative to 2018 are revenues and proceeds, along with payments and transfers. Despite a slight increase in the number of recommendations in the field of information systems, the situation still cannot be assessed as adequate. Given the ever-growing importance of information technology and cyber security risks to the business of organizations, the share of these findings and, in turn, recommendations, is expected to be higher than it currently is. Recommendations in the field of internal rules and procedures have a dominant share and are recording a trend of constant growth in the structure of issued recommendations. While the number of findings in the field of information technologies has increased in the last year, it failed to reach the level of 2017. Specifically, 2018 brought significant shifts in cyber threats. These shifts were primarily due to different motives of cybercriminals and the use of new tactics and technologies by the major threat agents. Consequently, the development of new threats, the emergence of new, agents of threats (cybercriminals) with different motives, as well as the use of new means and ways of carrying out cyber-attacks, should have resulted in a larger number of findings. There is a need for training auditors and room for improving risk assessment in this area, and especially recognizing information systems and cyber security risks when developing annual internal audit plans.

**Table 11. Number of recommendations by area and by year**

Areas the recommendations refer to <sup>38</sup>		Number of recommendations issued in 2017	Number of recommendations issued in 2018	Number of recommendations issued in 2019
1.	<b>Internal rules and procedures</b>	↓2214	↑2587	↑3405
2.	<b>Planning</b>	↓310	↑370	↑390
3.	<b>Revenues and proceeds</b>	↓180	↑255	↓170
4.	<b>Public procurement and contracting</b>	↑741	↓595	↑637
5.	<b>Employees, salaries, and benefits</b>	↓411	↑460	↑529
6.	<b>Payments and transfers</b>	↓180	↑255	↓244
7.	<b>Accounting and financial reporting</b>	↓555	↑568	↑590
8.	<b>Information systems</b>	↑215	↓184	↑213

Table 12 shows the number and structure of recommendations that were not implemented for 2019, disaggregated by PFB category.

**Table 12. Overview of issued recommendations not implemented, by PFB category**

PFB	Recommendations not implemented		Total number of recommendations made
	The deadline for implementation has not expired	Past the deadline	

<sup>38</sup> Areas, i.e. types of recommendations are issued in accordance with the official Annual Report Form on audits and internal audit activities submitted by PFBs.

Central/ Republic level	Ministries (with constituent administrative bodies)	205	24	1675
	MSIOs	16	5	296
	Other direct budget beneficiaries	77	9	255
	Indirect budget beneficiaries	10	5	216
	Public enterprises at central level	252	96	1462
	Other public funds beneficiaries	242	309	899
	Beneficiaries of NHIF funds	33	19	253
	<b>Total;</b>	<b>835</b>	<b>467</b>	<b>5056</b>
Local level	Direct budget beneficiaries of LGUs	276	227	1555
	Indirect budget beneficiaries of LGUs <sup>39</sup>	0	0	0
	Other public funds beneficiaries (PUCs and similar) founded by the local government	195	91	638
	<b>Total</b>	<b>471</b>	<b>318</b>	<b>2193</b>
<b>Total in RS</b>		<b>1306</b>	<b>785</b>	<b>7249</b>

The category of “*other PFBs*” which includes public agencies, research institutions, national councils, companies directly or indirectly controlled by the Republic of Serbia<sup>40</sup> has the largest number of recommendations not implemented at central level. This category of PFBs has a particularly high share in the total number of recommendations not implemented past the deadline (almost 40%). This group of PFBs did not implement a high 61.3% of recommendations.

The biggest problem with implementing recommendation was registered at the local level, in direct budget beneficiaries, i.e. bodies and services of the autonomous province and local government units (AP Vojvodina, towns, municipalities), as well as in other public funds

<sup>39</sup> Internal audit of indirect budget beneficiaries at local level is carried out by the direct budget beneficiaries responsible for them. Considering that the IA Rulebook gives this category of PFBs the possibility to establish an independent IA unit, this category is shown separately. Since no independent IA units were established in practice in these PFBs, the indicators for this category are equal to 0. The values of indirect budget beneficiaries at the local level are expressed through the indicators of the responsible direct budget beneficiaries that carry out IA on their behalf.

<sup>40</sup> Companies in which the state controls more than 50% of capital or 50% of the votes in the board of directors, as well as legal entities in which public capital accounts for more than 50% of revenues generated in the previous business year (excluding PEs).



beneficiaries, including public utility and other companies founded by provinces or local government units, legal entities established by these companies, or legal entities in which the autonomous province or local government unit has direct or indirect control over more than 50% of capital or 50% of votes in the board, as well as in other legal entities in which public capital accounts for more than 50% of revenues generated in the previous business year. No recommendations were given to indirect budget beneficiaries at the local level, as there are no PFBs in this category that have established an independent IA function (see *Annex 4 - Overview of PFBs that have established internal audit*).

**Table 13. Ratio of issued and implemented recommendations per PFB category in 2019**

No	PFB	Number of issued recommendations	Number of implemented recommendations	Implemented recommendations (in %)	Number of partially implemented recommendations
1	Ministries (with constituent administrative bodies)	1,675	1016	61%	329
2	MSIOs	296	272	92%	3
3	Other direct budget beneficiaries	255	137	54%	39
4	Indirect budget beneficiaries	216	159	74%	43
5	Public enterprises at central level	1,462	874	60%	74
6	Other public funds beneficiaries	899	337	37%	42
7	Beneficiaries of NHIF funds	253	174	69%	27
<b>Total at central level</b>		<b>5,056</b>	<b>2,969</b>	<b>59%</b>	<b>557</b>
1	Direct budget beneficiaries of LGUs	1,555	715	46%	183
2	Indirect budget beneficiaries of LGUs	0	0	0%	0
3	Other public funds beneficiaries (PUCs and similar) founded by the local government	638	259	41%	56
<b>Total at local level</b>		<b>2,193</b>	<b>974</b>	<b>44%</b>	<b>239</b>
<b>Total in RS</b>		<b>7,249</b>	<b>3,943</b>	<b>54%</b>	<b>796</b>

Table 12 shows issued and implemented recommendations in 2019. Out of a total of 7,249 recommendations issued in 2019, all public funds beneficiaries implemented a total of 3,943 recommendations, which is 54% of issued recommendations. Compared to the previous year, when this indicator stood at 65%, in 2019 there was a slowdown in the implementation of internal audit recommendations. When looking at individual PFB categories, we observed that MSIOs have continued with the positive trend in the implementation of recommendations. Compared to the previous year, the share of implemented recommendations in MSIOs increased reaching a high 92% relative to the previous year when this share stood at 90%. This indicator is indicative of a high awareness of the management about the importance of internal audit, i.e. the importance of the results of internal audit activities for the management and the organization.

The worst result was observed in the category of other PFBs at the central level and may indicate a lower level of awareness by the management of the need and importance of eliminating weaknesses in business processes and a lack of understanding of internal audit recommendations.

This category of public funds beneficiaries recorded the worst result in the previous reporting period as well. Last year's 35% of implemented recommendations were increased to 37% in 2019.

A qualitative analysis of the selected sample of individual Annual Reports on performed audits and internal audit activities of public funds beneficiaries for 2019, identified room for increasing the quality in the structuring of individual findings and recommendations. When recording findings and recommendations, one should keep in mind the risk assessment, materiality thresholds, as well as clearly identify the weaknesses in the internal control system that pose a threat to the PFB. Recommendations in this light should be aimed at eliminating the identified causes of weaknesses in the internal control system, and not exclusively at eliminating the consequences. With the intensification of continuous professional training of internal auditors as well as the improvement of the quality assurance function, we expect to see a gradual increase in the quality of the findings.

The negative trend in the implementation of internal audit recommendations indicates the need to raise the awareness of management and staff about the importance of internal audit and the importance of implementing IA recommendations. In addition, this trend indicates the need for clear delegation of responsibilities for the implementation of recommendations and close of internal audit findings, and consequently the need for better and continuous monitoring and follow-up of the implementation of recommendations and deadlines for their implementation. Implementing software at the central level for managing and documenting internal audit engagements and recording and monitoring open findings and recommendations would enable timely supervision of the activities of internal audit entities related to the implementation of recommendations and would significantly affect the quality of internal audit work. Follow-up audits have a special role in encouraging the implementation of internal audit recommendations. Their planning and regular implementation has a positive effect on the adequate implementation of recommendations. Also, cooperation with audit entities should be continuously improved by holding regular meetings with managers to review current issues and increase understanding of the role of internal audit. To be able to carry out timely supervision over the implementation of internal audit recommendations, the submission of Reports by auditees on the implementation of the signed activity plan as well as on the implementation of issued and accepted recommendations<sup>41</sup> to the internal audit within the statutory deadlines would have a positive effect.

In addition to the recommendations issued and implemented, attention should be drawn to the fact that a significant number of recommendations are not accepted by the auditees. In 2019, 1,126 recommendations were not accepted, of which a high 81% (912) of recommendations were not accepted by one category of PFBs – public enterprises at the central level. Of the total number of recommendations issued, 15.5% of recommendations were not accepted, which is a potential indicator of problems in cooperation with auditees.

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<sup>41</sup> Ministry of Labour, Employment, Veteran and Social Affairs.

## 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 internal audit plan. When considering the acceptance of consulting engagements, special attention should be paid to the management of objectivity and each individual engagement should be considered from the aspect of the standard that regulates impairments to independence and objectivity. For engagements or processes for which internal audit cannot provide assurance services without compromising objectivity and independence, consulting engagements may be provided.

**Table 14. Overview of consulting services, by PFB, 2019**

No.	PFB	Number of implemented consulting engagements
1	Ministries (with constituent administration bodies)	28
2	MSIOs	2
3	Other direct budget beneficiaries	12
4	Indirect budget beneficiaries	9
5	Public enterprises at central level	27
6	Other public funds beneficiaries	21
7	Beneficiaries of NHIF funds	66
<b>Total at central level</b>		<b>165</b>
1	Direct beneficiaries of LGU funds	55
2	Indirect budget beneficiaries of LGUs	0
3	Other public funds beneficiaries (PUCs and similar) founded by the local government	22
<b>Total at local level</b>		<b>77</b>
<b>Total in RS</b>		<b>242</b>

**Table 14. Overview of consulting services provided in the 2017–2019 period**

Year	Number of planned engagements	Number of implemented engagements
2017	224	279
2018	181	215
2019	Plan expressed in % auditor-days, not comparable	242

Based on the reports submitted, 242 auditor consulting engagements were carried out in 2019, which is an increase of 13% relative to the previous year. By analysing the sample of submitted reports, we noted that the practice of conducting “on-demand” consulting engagements has continued, resulting in the divergence between planned and realized auditor days for consulting services.

Auditor engagements in providing consulting services are frequently not recognized or adequately foreseen in the annual internal audit plan. The annual plan, in addition to a realistic assessment of the auditor's days required to perform consulting services, should also contain details on potential consulting engagements, the purpose and objective of the engagement, as well as the structure of the audit team that will implement such engagements. Independent planning of audit days in the budget for these activities, with the absence of details on specific engagements, reduces the total available fund of audit hours and negatively affects the efficiency of internal audit. Also, conducting "on-demand" audits is justified in case of changed business circumstances, the emergence or increase of risk and other changed circumstances of the social and business ecosystem. Conducting “on-demand” audits is a challenge in planning the work of internal audit and adequately allocating its resources. For this reason, “on-demand” engagements should not take the form of a regular practice. All consulting engagements should be planned, and the implementation of "on demand" consulting engagements is justified solely in circumstances that could not have been foreseen when the plan was drafted. The increase in the number of conducted consulting engagements (13% increase) should not be realized to the detriment of the number of conducted planned audits (13% decrease), or to the detriment of assurance engagements. In addition, when providing consulting services, internal audit must consider the limitations arising from the very standards in this segment and especially when considering the acceptance of each consulting engagement separately. Specifically, internal audit cannot take on the responsibilities of management, which means that it cannot make decisions, nor can it take responsibility for the project activities and results that may result from performed consulting engagements, nor take responsibility for any management aspects. The internal audit cannot participate in the implementation of the internal control system either.

The annual report on performed audits and internal audit activities also contains a section in which internal auditors express their opinion on the established level of financial management and control in the reporting period. According to the submitted reports, most of the findings concerned the control activities area, followed by the control environment, and the least findings

were issued in the monitoring (supervision) and evaluation area. Most of the findings concern inadequacy and non-compliance with procedures and lack of control activities.

### **2.2.7 Quality review of internal audit activity**

The CHU conducted a quality review of internal audit work in ten public fund beneficiaries, covering the period from 1 January 2018 to 30 September 2019. The report on the quality review of internal audit work No. 401-00-1622/2020-09 of 31 March 2020 was submitted to the minister of finance and published on the website of the Ministry of Finance.

The quality review was conducted in the following PFBs:

- Service for internal audit of budget beneficiaries of the Autonomous Province of Vojvodina;
- Ministry of Agriculture, Forestry and Water Management - Directorate for Agrarian Payments;
- Office for Kosovo and Metohija;
- City of Kragujevac;
- City of Užice;
- Public Enterprise (PE) Electric Power Industry of Serbia (EPS);
- Transnafta Joint Stock Company in Pančevo;
- Joint Stock Company for Railway Passenger Transport "Srbija Voz";
- Public Enterprise Official Gazette;
- Corridors of Serbia Ltd.

The review included a check of compliance with the prescribed requirements for the establishment of internal audit units, audit scope, 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.

The consolidated report on the internal audit quality review was drafted on the basis of individual reviews of public funds beneficiaries performed by certified internal auditors in the public sector, employed in the Department – Central Harmonization Unit, Ministry of Finance.

Public fund beneficiaries subject to the internal audit quality review have established the internal audit function by envisaging job posts for internal auditors in their respective rulebooks on internal organization and systematization of job posts, all in accordance with the IA Rulebook. Seven PFBs have systematized IA units with three or more internal auditor posts, while three PFBs have one internal auditor post systematized. Out of total 56 systematized internal auditor positions, 37 were filled and 27 of them by certified internal auditors in the public sector, while the remaining ten internal auditors are undergoing training for acquiring this title of certified internal auditor in the public sector.

In some PFBs, during the quality review, the number of internal auditors was reduced in IA units due to their assignment to other positions or retirement, and no new internal auditors were hired or reassigned to fill these vacancies. The reasons provided by the PFBs are the loss of employees to positions outside the internal audit and the lack of appropriate staff. Public funds beneficiaries who have established an internal audit function with only one internal auditor are jeopardizing compliance with internal audit standards.

Internal auditors in the PFBs subject to review are implementing the internal audit methodology and are aware of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. All established internal audit units have adopted the key documents required for their activity, such as: the charter, code of ethics, strategic and annual work plan, however, these documents were not internally published and disseminated to all executives and staff within the organization. Some internal audit units did not have a properly aligned charter with the model charter published on the website of the Central Harmonization Unit and failed to update the signatories in line with the current situation, but they are in the process of alignment.

Resources for the execution of audit plans are in line with realistic possibilities, but with the stated limitations in internal audit units that have only one internal auditor.

The plans do not fully reflect the audit consulting engagements, which account for a significant share of the internal audit work. Part of the internal audit units planned to perform follow-up audits (to assess implementation of recommendations), but only to a limited extent. The most common reason for the absence of these audits is the small number of auditors employed in internal audit units, i.e. insufficient number of available man-days in relation to the scale of the audits. Internal audit plans also include audits of decentralized/indirect management of IPA funds within the IPA Operating Structure.

It was also found that in the process of preparing the plans, each individual step was not documented and that the adopted plans were not made available to all managers and employees within the PFB. In case of limitations in the audit environment, no reasons or possible consequences were stated. Disclosing plans increases the transparency of the internal audit activity in PFBs and contributes to raising awareness of the need to implement an internal control system by all managers and employees.

Internal quality control of internal audit is performed through constant supervision by the head of internal audit as well as regular self-assessment. This procedure is carried out in internal audit units with three or more auditors, while in internal audit units with an insufficient number of internal auditors it is usually omitted, or only formally carried out (the head of internal audit is also the auditor who performs the audit).

Internal audit units report their training needs in their annual plans, yet in a generalized manner, without stating the specific areas. In interviews, internal auditors have expressed the need for additional training relating to the practical implementation of performance audits and

information system audits as well as the need for direct exchange of experiences with colleagues from other countries.

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

- In line with their HR capacities, PFBs should provide operational staff for internal audit tasks to ensure that this function is substantially 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;
- When preparing plans, each individual action should be documented and adopted plans should be made available to all executives and staff in the organization. This is the way to increase the transparency of the internal audit activity within the PFB and contribute to increasing awareness of the need to implement an internal control system by all managers and employees;
- Apply the methodology for internal quality control more consistently.

### **2.2.8 PFBs' proposal 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, first and foremost:

- education, additional training, and professional development of internal auditors through seminars, trainings, and workshops;
- 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 internal audit and raise awareness of its importance;
- strengthen staff capacities;
- change legislation to acknowledge the specificities of internal auditing, ensure that internal auditors in the public sector are given an adequate professional and financial status to retain existing and attract new staff;
- lay the foundations for the development of IT audits;
- technological advancements, such as the implementation of an information system for internal audit activities, integration with information systems and introduction of a control mechanism to monitor the implementation of recommendations;
- development of consulting activities in accordance with risk assessment and implementation of trainings for performing these activities;
- development of instructions and guidelines for the establishment of quality assurance and improvement programmes.

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.

### **2.3 How COSO works in practice: external review of the FMC system**

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.

A review of data obtained from other sources is also needed to provide additional insight into how the FMC system works in practice and the extent to which the COSO self-assessments reported by the PFBs are consistent with external audits. The PIFC report for 2018 is based on information from the annual activity reports of the SAI and the Budget Inspectorate for 2018, which refer to the application of certain COSO elements in the PFBs. Article 43 of the Law on the State Audit Institution stipulates that the SAI shall submit its annual activity report to the National Assembly. Considering that elections of MPs have been called, the SAI's Annual Activity Report for 2019 has not been adopted until the day of preparation of the PIFC report for 2019.

This chapter presents the relevant conclusions of the Budget Inspectorate (BI) in the context of the COSO framework, but in order to understand them correctly we should take into account the limiting factors for cross-referencing the Budget Inspectorate findings with the methodology used by the CHU:

- In its activity the BI is focused on materiality and weaknesses in transactions, while PFBs in their reports have reflected on the overall functioning of the FMC system and provided their self-assessments within the context of full achievement of COSO framework.
- The sample of institutions covered by inspections does not match the sample reporting to the CHU.

Due to these restrictions, the data provided by SAI and BI are not comparable to the statistical data prepared by the CHU in this report, and the results below can to an extent be used as an illustration and source of additional information.

#### **2.3.1. Overview of inspection oversight by the Budget Inspectorate based on the annual activity report for 2019**

Pursuant to provisions of Article 84 of the BSL, the Ministry of Finance, the Budget Inspectorate (BI) is tasked with conducting inspections of direct and indirect budget beneficiaries, mandatory social insurance organizations and other entities listed in items 3), 4) and 5) of the same Article. The BI inspects compliance with the law in material and financial transactions as well as the lawful use of funds for their intended purpose, in accordance with Article 86 of the BSL. The purpose of inspections is to strengthen the accountability of PFBs for the legal and purposeful spending of budget, i.e. public funds, to reduce and eliminate irregularities and violations of the law in doing business and improve financial discipline.



The BI activity report provides information to the Government of the Serbia on the implementation of the Work Programme for the previous year, on conducted inspections of violations and irregularities as well as proposed measures 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.

According to the Annual Activity Report of the Budget Inspectorate for 2019, the Budget Inspectorate carried out 43 inspections. With respect the entities subject to inspection in 2019, a total of 41 measures were proposed in the inspection records submitted, and 13 motions were filed with competent misdemeanour courts for instigating misdemeanour proceedings.

The Annual Activity Report of the Budget Inspectorate for 2019 lists the most common violations of the law and irregularities found during the inspection activities. The conclusion is that the largest share of violations and irregularities was registered in *control activities* and they concern absence of action or incorrect application of the following regulations:

a) Budget System Law

- undertaking commitments and making payments from the budget without providing evidence of the legal grounds for these transactions (Art. 54 and 58);
- undertaking commitments exceeding the amount of funds envisaged in the budget, i.e. financial plan (Art. 56, para. 4.);
- preparation and adoption of financial plans in violation of the provisions governing budget classification (Article 29);
- preparation and adoption of decisions on the budget of local authorities, as well as preparation and submission of financial plans of mandatory social insurance organizations and direct and indirect budget beneficiaries of the Republic of Serbia in violation of the provisions of this law (Art. 36a–41);
- new recruitment or professional engagement on other grounds in excess of the statutory threshold of 10% of the total number of employees, without obtaining the consent of the Commission for New Employment and Additional Professional Engagement in Public Funds Beneficiaries (Art. 27e, paras. 34–37).

b) Regulations on the budget

- distribution of profits reported in the final accounts of public enterprises and other forms of organizations founded by the Republic of Serbia, as prescribed by the provisions of the Law on the Budget of the Republic of Serbia;
- calculation and payment of annual and other types of awards and bonuses envisaged by special and individual collective agreements, contrary to the regulations governing the planning, adoption, and execution of the budget of the Republic of Serbia for the current year.

c) Regulations on financial discipline

- non-compliance with deadlines for the settlement of financial obligations in commercial transactions between the public sector and business entities, i.e. between public sector entities, which is regulated by Art. 3–7 of the Law on the Terms for the Settlement of Financial Obligations in Commercial Transactions.

d) Public procurement regulations

- implementing a public procurement procedure despite the procuring entity not previously meeting the prescribed conditions in accordance with Article 52 of the Law on Public Procurement;

- the estimated value of the public procurement must be based on a survey and market research of the subject matter of public procurement, which includes checking the price, quality, warranty period, maintenance, etc. and must be valid at the time of initiating the procedure, pursuant to Article 64, paragraph 3 of the Law on Public Procurement.

e) Regulations on salaries, benefits, and other income

- non-compliance with the provisions of the Law on interim regulation of salary, i.e. wage and other steady income calculation and payment bases of public funds beneficiaries (RS Official Gazette No. 116/14 and 95/18) requiring the salary bases to be reduced by 10%;
- bases, coefficients and other elements are increased, i.e. new elements are introduced, on the basis of which the amount of salaries and other permanent income increases contrary to the Law on interim regulation of payment bases which stipulates that they will not increase during the period of validity of this law (Article 4);
- inconsistency of general and internal acts regulating the calculation and payment of salaries, with the provisions of special laws governing the field of salaries, i.e. wages, as well as with their bylaws;
- improper application of applicable legislation relating to the calculation and payment of salaries, salary compensations, allowances and other personal income of civil servants and employees of the Republic of Serbia when stipulating employment contracts, service contracts, and grant agreements for project implementation;
- non-compliance with the provisions of Article 27 of the Law on salaries of civil servants and employees in the calculation and payment of overtime allowances;
- non-compliance with the Law setting the wage ceiling in the public sector (RS Official Gazette No 93/2012).

e) General labour and employment regulations

- non-compliance with Article 199 of the Labour Law (RS Official Gazette No. 24/05, 61/05, 54/09, 32/13, 75/14, 13/17- decision of the Constitutional Court (CC), 113/17 and 95/18)
- general and internal acts regulating the calculation and payment of salaries are not aligned with the provisions of the Labour Law and other special laws governing the area of salaries, i.e. wages, as well as with their implementing bylaws.

f) Regulations regarding the register of employees

- failure to submit the necessary data to the Register of employees, elected, appointed, designated and engaged officials with public funds beneficiaries, contrary to Art. 1 to 6 of the Law on the Register of Employees, Elected, Appointed, Designated and Engaged Persons with Public Funds Beneficiaries (RS Official Gazette No. 68/15 and 79/15).

g) Regulations on budget accounting

- accounting documents are not compiled or recorded in accordance with Article 16 of the Regulation on Budget Accounting (RS Official Gazette No. 125/03 and 12/06);
- the organization of the accounting system is not regulated by an internal general act in accordance with Article 16(9) of the Regulation on Budget Accounting;
- reconciliation of business accounts, inventory of assets and liabilities and reconciliation of receivables and liabilities, is not in accordance with Article 18 of the Regulation on Budget Accounting.

h) Regulations on financing traffic safety

- Bodies for coordination of traffic safety (commissions, councils, etc.) are not established in accordance with Article 8(2) of the Law on Traffic Safety;

- The programme for the use of funds for the improvement of traffic safety is not adopted in accordance with Article 19(2) of the Law on Traffic Safety;
- The programme of the Security Council is not listed as a special programme activity in the Decision on the budget for the current year.

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In the process of regularly updating their FMC system, the organizations' management and members of the FMC working group formed at the PFBs should consider the findings and measures of the SAI and the Budget Inspectorate to determine the causes of these deviations, increase the effectiveness of risk assessment and introduce appropriate controls to reduce assessed risks.

By familiarizing with and recording the audit environment, the PFBs' internal auditors should regularly keep abreast of the findings and measures of the Budget Inspectorate, and monitor the implementation of recommendations with a view to improving business processes and achieving PFB goals.

### III REPORTING ON PROGRESS

This chapter reports on the progress made in the PIFC area, based on the three following sources of information:

1. Action Plan of the PIFC Strategy 2017-2020
2. Recommendations from the EC Progress Report for 2018 and 2019
3. Recommendations from the PIFC Report for 2018

Activities of the Ministry of Finance in relation to these three sources are interrelated.

#### **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.

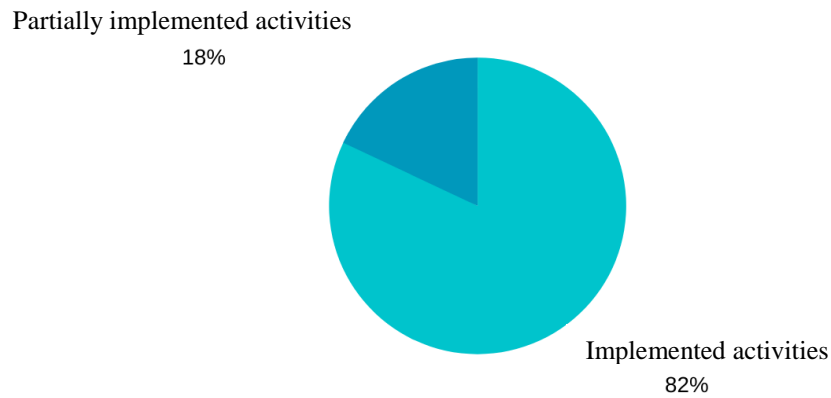
The implementation of the 2019–2020 Action Plan for the implementation of the PIFC Strategy for the period from 2017 to 2020 was very successful in 2019.

The Action Plan envisaged a total of 39 activities of which 28 were scheduled in 2019.

Of a total of 28 activities envisaged for 2019, 23 are fully implemented (82%), 5 partially implemented (18%), and there are no pending activities.

For all individual activities scheduled in 2019 that were delayed, an explanation is provided of the reasons for the delay and a schedule was prepared for their implementation in the forthcoming period in Annex 2 – Implementation of the PIFC Strategy Action Plan.

**Figure 10. Percentage of implemented recommendations 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 strategic objective of PIFC Strategy 2017–2020:

Strategic objective 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;

A total of 9 activities were envisaged under the first objective for 2019, which were all fully implemented.

Strategic objective 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;

A total of 11 activities were envisaged under the second objective for 2019, of which 8 were fully implemented (73%), three partially (27%), with none left to implement.

Strategic objective 3. Further development of internal audit in terms of professionalism and scope of work, more efficient use of available resources and development of the quality assessment system.

A total of 8 activities were envisaged under the third objective for 2019, of which 6 were fully implemented (75%), and two partially implemented (25%) with none left to implement.

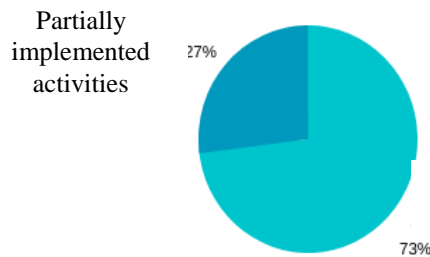
**Figure 11. Percentage of implemented activities from the 2019-2020 AP for the implementation of the PIFC Strategy 2017-2020, by objective**

## Objective 1



Activities implemented 100%

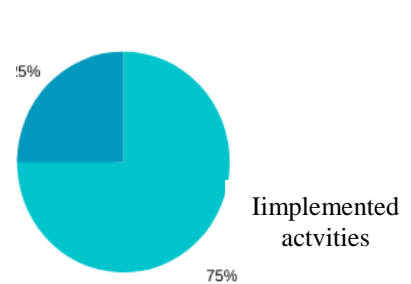
## Objective 2



Implemented activities

73%

## Objective 3



Implemented activities

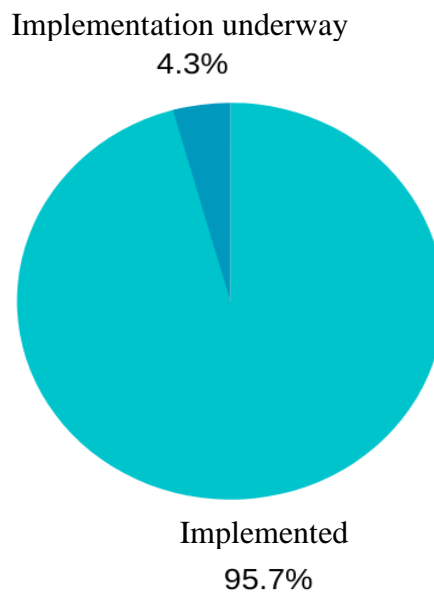
75%

In 2019, the CHU invested significant efforts in PIFC activities, which resulted in the implementation of certain activities scheduled for 2020 **before the deadline**. Significant progress was made in the implementation of activities related to the improvement of the e-learning platform on which a set of guidelines was posted to improve knowledge in the field of FMC and IA. The software became operational at the end of 2019 following the elimination of some technical and functional flaws and was integrated in the reporting system for 2019 on a trial basis. Constant activities are being implemented to improve the content and form of the PIFC Consolidated Annual Report, as well as the Self-Assessment Questionnaire, with a view to improving the quality of data submitted by PFBs and ensuring compliance with regulatory changes.

### 3.2 Recommendations from the EC Report on Serbia for 2018 and 2019

The table below provides an overview of the recommendations from the EC Progress Report on Serbia for 2018 and 2019. Given that the EC had not published its report for 2020 until the completion of the drafting of the CAR for 2019, we updated the overview of the implementation of recommendations for the previous years. Out of 23 recommendations provided by the EC in its Progress Reports for 2018 and 2019, 21 (95.66%) EC recommendations have been implemented so far, and 2 (4.34%) are in the process of being implemented.

**Figure 12. Rate of implementation of EC recommendations**



The table below provides an overview of the recommendations provided in the EC's Progress Report on Serbia for 2018 and 2019.

Recommendations	Implementation		
	Implemented recommendation	Implementation underway	Implementation scheduled to start
<b>1. Adopt or amend regulations</b>			
<b>a. Amend the Budget System Law in the part relating to managerial accountability (from 2018)</b>	Implemented in amendments to the BSL in 2018		
<b>b. Review and amend the laws in public administration to provide a coherent basis for the implementation of delegated managerial accountability (from 2019)</b>	An Action Plan has been drafted for the Pillar of Accountability and Transparency within the PAR Strategy for the post-2020 period. The activity began in 2019 and will be completed by the end of 2020. Several activities under this pillar are dedicated to amending regulations to create a basis for improving management accountability.		
<b>c. Provide a mandate for the Central Harmonization Unit to implement quality reviews of internal control systems (from 2018)</b>	The mandate has been regulated in the BSL, since 2009		
<b>d. Upgrade the FMC Manual (from 2018)</b>	Prepared in late 2018, published on the CHU website in February 2019; implemented COSO 2013, further elaborated the MA concept, presented COSO 2017 – Risk Management framework and included tools for implementation. The FMC Manual was updated once again in the first quarter of 2020.		
<b>e. Develop guidelines for detection and response to irregularities (from 2019)</b>	The first draft of the guidelines was developed in 2019, and the final version in the first quarter of 2020, in cooperation with the Twinning project, and was subsequently published on the website of the Ministry of Finance. The reporting on management irregularities is scheduled to start in 2020.		



<p><b>2. Develop a policy approach on PIFC in the public sector, focusing on managerial accountability</b></p>	<p>In consultation with representatives of the joint initiative of the OECD and the EU – Support for Improvement in Governance and Management (SIGMA) and the EC, it was agreed that a comprehensive approach in the field of governance be addressed within the PAR Strategy for 2021 under a separate pillar: Accountability and Transparency. The PIFC Strategy Paper will be integrated into the new Public Financial Management Programme (PFM Programme) as a separate pillar of the Programme, for the same period. Drafts of both documents have already been prepared.</p>		
<p><b>3. Implement managerial accountability</b></p>			
<p><b>a. ensure that managerial accountability is embedded into the administrative culture (from 2019)</b></p>	<p>A lot was done in the previous period to establish managerial accountability (for more details please refer to the segment on managerial accountability and the Pilot Project in the section of the CAR for 2019 where an account is provided of CHU activities in this area):</p> <p>Additionally, in cooperation with the National Academy for Public Administration (NAPA) the CHU, prepared a proposal for a General Professional Training programme for 2021, to which a module on managerial accountability was added (the adoption of this Programme is underway).</p> <p>Activities geared toward further improving managerial accountability, primarily delegation and management of performance, are envisaged in the proposal of the PAR Strategy for the post-2021 period.</p>	<p>The CHU submitted a proposal for the training programme to the NAPA for 2021 to which a managerial accountability module was added.</p>	<p>The activities envisaged in the PAR strategy for the period after 2021, concern the improvement of managerial accountability with a focus on delegating and managing performance.</p>
<p><b>b. implement at least three pilot projects on managerial accountability (from 2019)</b></p>	<p>A pilot exercise, aimed at introducing, i.e. applying good FMC system practices in pilot institutions: MFin, MPALS, PPS and the NES in 2019, was fully completed in the first half of 2020 (for more details please refer to the segment dedicated to managerial accountability in the section of the CAR for 2019 that elaborates on the activities of the CHU)</p>		
<p><b>4. Political support and coordination mechanism:</b></p>	<p>The PIFC Strategy envisages that a Working Group (consisting of representatives of all ministries, the PPS, the EU Audit Office, and the SAI) will monitor the PIFC Strategy from June 2017. The first meeting of the Working Group was held on 12 February 2019, and the second one on 17 September 2019.</p> <p>An additional coordination mechanism was established for the WG for the coordination of the PIFC within the PAR Council (the WG reported to the PAR Council on its activity in December 2019). After the consultative meeting which took place at the initial conference for the development of the new Public Administration Reform Strategy 2020-2030, in September 2019, the representatives of the relevant institutions reached an agreement that the issue of further development of managerial accountability, crucial for the PAR, be managed under a "single roof" by the Accountability and Transparency Subgroup of the PAR Strategy Working Group.</p>		

	Representatives of relevant institutions actively and as needed meet to discuss important issues related to the improvement of managerial accountability (General Secretariat of the Government, Secretariat for Legislation, MPALS, MFin, NAPA and HR Management Service) and the Subgroup in charge of the <i>Accountability and Transparency</i> pillar actively works on the preparation of strategic solutions.		
<b>a) Establish coordination, monitoring and reporting of the PAR, PFM and PIFC reforms (2018)</b>	The Mechanism for Coordination, Monitoring and Reporting on PAR, PFM Programme and PIFC Strategy has been in place for years, but has been further regulated by the enactment of the new Law on the Planning System, which has been in force for a year. In this context, the hierarchy of planning documents prescribed by the Law on Planning System is particularly important. The new set of strategic documents will be harmonized with the new Law, and all processes related to them will be regulated in detail.		
<b>b) A more comprehensive policy approach needs to be developed to improve and further guide the implementation of PIFC (from 2019)</b>	The PIFC Strategy is aligned with other strategic policy documents of the Republic of Serbia, primarily with the PFM Programme and the PAR Strategy post-2021. These public policy documents will be much more strongly linked in the next strategic period through the consistent application of the hierarchy of planning documents as well as the monitoring system provided by the new Law on the Planning System.	With the new Government in place, it is expected that the strategic management process will be significantly strengthened through the adoption of “umbrella” strategic documents.	
<b>c) The WG within the PAR Council is required to meet (from 2019)</b>	The first meeting was held in May 2019. The PAR Council was informed about the activity of the Working Group in December 2019		
<b>5. Further develop risk management (from 2018 and 2019)</b>	<p>“Risk Management Guidelines” and the “Risk Management Strategy” model were published in November 2018.</p> <p>The Risk Management Guidelines were updated in the first quarter of 2020</p> <p>Risk management is covered in all trainings and workshops organized by the CHU in the field of FMC.</p> <p>The CHU submitted a proposal for the training programme for 2021 to the NAPA, which will include risk management training.</p>		

<p><b>6. Establish internal control quality review (from 2019)</b></p>	<p>This function is fully established. In December 2018, a special organizational unit was formed within the CHU: the Group for Reviewing the Quality of the FMC System with 3 positions envisaged in the staffing plan. The first quality review was performed, and a methodology developed with the support of the Twinning project. A second quality review was performed with the help of GIZ. A summary of the annual quality review of the FMC system has become a mandatory part of each CAR on the PIFC system.</p>		
<p><b>7. Establish and implement in practice the system for detection of irregularities (from 2018 and 2019)</b></p>	<p>In October 2018, a workshop was held with representatives of relevant institutions: “Development of a model for managing irregularities within the financial management and control system in the public sector“</p> <p>The definition of irregularity was introduced in the latest version of BSL in December 2018.</p> <p>The first draft of the Guidelines was prepared in 2019, finalized in the first quarter of 2020 and published on the MFin/CHU website.</p> <p>Amendments were adopted to the Rulebook on Common Criteria and Standards for the Establishment, Functioning and Reporting of the FMC System at the PFBs, which entered into force on 18 December 2019. The amendments introduce, among other things, an obligation for PFB managers to establish a system for managing, reporting on and mitigating the risk of irregularities.</p>		
<p><b>8. Improve internal audit</b></p>			
<p><b>a) Define the criteria for establishing the IA function (from 2018)</b></p>	<p>Criteria are in place under the existing IA Rulebook (the IA modalities are indicated and a certain type of institutions that must establish an IA unit). In 2020, Guidelines were developed for the establishment of a joint internal audit unit for small public funds beneficiaries.</p>	<p>Since the last quarter of 2019, the CHU has been in the process of preparing amendments to the regulations, including the IA Rulebook, supplementing the criteria for establishing the IA function. Necessary analyses were conducted and in the second quarter of 2020, a draft of regulatory changes was prepared. Consultations with state bodies are currently underway.</p>	

<p><b>b) Raise awareness of senior management of internal audit (from 2018)</b></p>	<p>The importance of internal audit is one of the topics addressed in the one-day trainings tailored to the needs of the PFBs organized regularly by the CHU for representatives of senior management.</p> <p>In 2019, four trainings for managers were held and, with project-based support, activities were carried out to promote and inform participants about the importance of the PIFC through media and other communication channels with a special focus on the importance of internal audit;</p> <p>A training curriculum on the FMC system that also deals with the importance of internal audit is included in the Professional Development Programme intended for senior managers from 2019.</p> <p>In cooperation with the NAPA, the CHU has prepared a training proposal for 2021, among which is the FMC training to be included in the Professional Development Programme for Managers (mandatory programme according to the Law on Civil Servants), which is envisaged in the new post-2020 PAR strategy. One of the topics addressed is the importance of internal audit for the management. In addition to this training, the proposal also includes training on managerial accountability, risk management, and a hands-on training in internal controls.</p>		<p>b) continuous activity</p>
<p><b>c) Improve the IA quality assurance system (from 2018)</b></p>	<p>The quality review methodology was formulated by the CHU, three reviews were completed.</p> <p>In the first quarter of 2020, a draft rulebook for external quality control of IA activity was prepared according to the peer review model.</p> <p>The piloting and development of a methodology for assessing quality according to the peer review model is being prepared with the support of the GIZ project.</p>		
<p><b>d) Improve timely implementation of IA recommendations (from 2019)</b></p>	<p>The need for this was highlighted in the Consolidated Annual Report and by the SAI. In the MSIO category, 92% of recommendations were implemented. The situation is monitored regularly.</p> <p>A recommendation for improving the timely implementation of recommendations has also been provided in this CAR (see Conclusion, Recommendations for Internal Audit)</p>		<p>Part of the IA Manual: monitoring the implementation of recommendations will be further clarified and will help to understand the need for accelerating the implementation of recommendations.</p>
<p><b>9. In the PIFC Annual Report</b></p>			
<p><b>a) Assess progress made regarding the PIFC Strategy (2018)</b></p>	<p>Implemented in the PIFC Report for 2017, 2018 and 2019</p>		
<p><b>b) Assess the implementation of</b></p>	<p>Implemented in the PIFC Report for 2017, 2018 and 2019</p>		

<b>recommendations from the previous year's report (2018)</b>			
<b>c) Better identified weaknesses and proposed corrective measures (identified systemic weaknesses) (2019)</b>	Implemented in the PIFC Report for 2018 and 2019		
<b>10. The CHU should gradually shift its focus from training activities to methodological guidance (2018)</b>	In 2019 and in the first half of 2020 numerous guidelines were developed, and existing ones were updated. The CHU fully addressed this recommendation. For more detailed information please refer to the CAR section on CHU activities: <i>Continuous development of methodological manuals and guidelines for internal audit and financial management and control</i>	A project for the improvement of the IA certification scheme is in progress (draft amendments to regulations were completed and submitted for consultations)  The transfer of the organization of trainings is underway.	
<b>11. The CHU – staffing (2018)</b>	In 2019, three persons were employed through internal recruitment and transfer.		A public recruitment process is scheduled to take place by the end of 2020.

### 3.4 Recommendations from the PIFC Consolidated Annual Report for 2018

Overall, we can say that the implementation of most recommendations has either been finalized or is underway. Considering the long-term and/or permanent nature of some recommendations, implementation will take some additional time. Of the total number of recommendations, 40% is fully implemented or are a regular, continuous activity, while 60% of recommendations are either partially implemented or their implementation is underway. Of the total number of recommendations that concern the CHU, 50% are finalized or are being implemented on a permanent basis, while the remaining 50% are underway or partially implemented. Of the four recommendations that concern the PFBs, three are partially implemented, and one is ongoing.

The results achieved in terms of the implementation of recommendations from the PIFC Consolidated Annual Report for 2018 are presented below.

#### **Status of implementation of recommendations for the improvement of the FMC system in PFBs:**

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**Recommendation: Prioritize/define the circle of priority PFBs for CAR** with emphasis on monitoring the biggest PFBs

**Status:** multiannual recommendation, implementation is underway

**Follow-up:** In late 2017 an analysis of weaknesses was prepared, which contains a cross-section of the situation in the field of financial management and control and internal audit in the public sector. It was conducted with the help of the Twinning project and provides recommendations for overcoming identified weaknesses and improving the PIFC system. The analysis was finalized at the beginning of 2018, and the CHU cooperated with SIGMA in 2019 and 2020 in defining the circle of the most important institutions and the effectiveness and impact on implementation. As a result of this activity, amendments to regulations were drafted.

**Recommendation: Direct and indirect budget beneficiaries** should establish and foster cooperation and peer-to-peer experience exchange in the FMC area at the level of their respective departments.

**Status:** multiannual recommendation, implementation is underway

**Follow-up:** As part of the RELOF 2 project, LSGs participated in drafting amendments to regulations that require LSGs to be included in reporting, consolidation, and providing recommendations for improving the FMC system and follow-up of implementation by PFBs within the scope of their authority.

Plans have been prepared for testing a wider scope of local government involvement for budget beneficiaries within its sphere of competence under the RELOF project.

**Recommendation: Further improve risk management** through on-site reviews of FMC systems and identification of potential problems (*redefined recommendation from the CAR for 2018*).

**Status:** multiannual recommendation, implementation is underway

**Follow-up:** The *Risk Management Guidelines* have been updated and published on the CHU website in November 2018 and again in the first quarter of 2020. The Risk Management Strategy model was prepared and published on the CHU website in November 2018. The Financial Management and Control Manual was updated at the end of 2018 and published on the CHU website in February 2019. Thus, COSO 2013 was implemented, the concept of managerial accountability further clarified, the COSO 2017 – Risk Management Framework was presented, and specific tools were added for the implementation of certain aspects of the FMC system. The manual was also updated in the first quarter of 2020. The risk management of PFBs was also analysed as part of the FMC system quality review.

**Recommendation: Introduce irregularities management** through the preparation of a regulatory and methodological framework by the CHU in cooperation with the Twinning partner, and, additionally, ensure its implementation by the PFBs' management.

**Status:** implementation is underway

**Follow-up:** The definition of irregularity is laid down in Article 2 of the Budget System Law. The amendments to the FMC Rulebook in December 2019 introduced the obligation to establish a system for the management, reporting and mitigation of the risk of irregularities, which is the responsibility of the PFB manager, whereby this area was normatively regulated.

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 will arrive in the CHU in the first quarter of 2021 as part of the report on the state of the FMC system submitted by the PFBs.

**Recommendation:** through an **open dialogue with the local government**, the CHU should consider their specificities in the forthcoming regulatory reform process and in the development of methodological guidelines. In addition, methodological support now provided through donor projects targeting local level PFBs (RELOF and UNDP/SDC) should be continued.

**Status:** fulfilled, implemented continuously

**Follow-up:** In cooperation with the RELOF project, an analysis of the state of implementation of FMC and IA in local government units and local public enterprises was carried out in 2019 and 2020, as a basis for evidence-based policy making. Subsequently, three dialogues on public policies were conducted on the topic of improving the implementation of FMC and IA at the local level (needs and possibilities of introducing joint internal audits; proposal to improve the IA organization and work in local governments; model for the improvement of the FMC system in IBBs at local level, with recommendations for amendments to relevant regulations). Representatives of local government units, local public enterprises and indirect local budget beneficiaries submitted their proposals for changes in regulations to better reflect their specificities. They actively participated in the development of analyses, proposed amendments, and policy briefs.

**Recommendation:** the CHU, with the support of the Twinning project and donor community, should invest efforts to improve and develop **concrete guidelines, practical tools**, and models in the internal control area.

**Status:** implemented

**Follow-up:** In 2019, the CHU intensified activities on the preparation of as many as 9 specific guidelines in the FMC system area under the Twinning project<sup>42</sup> (of this 6 methodological materials was prepared as part of the pilot exercise organized under the Twinning project). All materials were completed in cooperation with this project in the first half of 2020. In cooperation with the RELOF project, in 2019 we worked on the development of know-how products specifically tailored to the local level. This activity is scheduled to be completed by the end of 2020.

**Recommendation: PFB managers are the key focal point** in establishing the FMC system according to the COSO framework and they should engage in and allocate adequate resources for this purpose, primarily in terms of staff time and work organization, in order to reach and demonstrate compliance with COSO standards in their organization through regular reporting using the methodological guidelines prepared by the CHU. This recommendation **primarily** concerns PFBs that are not yet reporting on the FMC system, and which fall into one of the following categories of PFBs: direct beneficiaries of the budget of the RS, local government units, as well as all other PFBs with over 250 employees.

**Status:** partially implemented

**Follow-up:** By Decision of the Government, the CAR for 2018 was forwarded to all ministries and judicial institutions of the first order for the implementation of recommendations. The implementation of the COSO principle has been registering constant progress. The expected increase in reporting was absent due to the Covid-19 epidemic and the introduction of electronic reporting, which was new for the reporting entities. The largest and most important institutions regularly report on their FMC systems, but there are exceptions. In 2019, the CHU worked on the preparation of changes to regulations that would include penalty provisions for this circle of priority beneficiaries.

## **The status of implementation of recommendations for the improvement of internal auditing:**

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### **Recommendation: staffing of IA units:**

- All PFBs should **align their staffing plans, number of staff and fill the vacant internal auditor positions** in relation to regulations, risks, complexity of activities and the amount of funds they are managing;
- As a matter of priority, ministries, direct budget beneficiaries of the RS who have indirect budget beneficiaries in their jurisdiction and cities that have not

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<sup>42</sup> Please refer to the section on CHU activities.



yet staffed their internal audit units, should **select or employ appropriate staff within the existing staff capacities** as soon as possible.

**Status:** partially implemented

**Follow-up:** Despite the increase in the total number of normatively established internal audit functions and systematized and filled internal auditor positions at PFBs in 2019 compared to last year, the recommendation is still not fully implemented.

**Recommendation:** improve the professional status of internal auditors

**Status:** multiannual recommendation, implementation is underway

**Follow-up:** The implementation of the project for the improvement of the professional status of internal auditors started in 2019 under the SIDA/UNDP project.

**Recommendation:** the CHU should **improve the certification process** to decrease the need for the direct involvement of CHU staff. The availability of trainings should be expanded as well as opportunities for certification of internal public sector auditors by recruiting private sector staff and through cooperation with the academic community.

**Status:** multiannual recommendation, implementation is underway

**Follow-up:** Under the UNDP/SEKO project, in 2019 the CHU intensified activities in this area. The required analysis was prepared, and activities are underway to amend regulations and self-study materials. The complete self-study materials were prepared for candidates for certified internal auditors in the public sector, consisting of case studies (10 case studies were prepared and completed in mid-2020). Preparations are underway for piloting the exams and introducing candidates to the self-study process. In addition to the above, the Internal Audit Manual was updated in March 2020, and samples of self-study materials will be found in the materials for the preparation of candidates who go through the full process of regular training. The Faculty of Economics of Belgrade University has included internal audit in its study programme syllabus, which combines auditing and accounting both in graduate and postgraduate studies. Both study programmes were accredited this year and will be offered to students in the fall semester of 2020.

**Recommendation:** concerning the applicable regulations, the CHU should analyse and consider making **changes in the criteria** for establishing the internal audit function and internal audit units in PFBs, for the purpose of **optimizing** the number of required auditors, improving performance and compliance with internal audit standards.

**Status:** implementation is underway

**Follow-up:** starting from the last quarter of 2019, the CHU has been busy preparing legislation amendments (Budget System Law, IA Rulebook and Rulebook for IA certification). In the second quarter of 2020, the CHU prepared an impact analysis and a draft of the amendments to the legislation. The CHU is currently holding consultations with relevant stakeholders.

**Recommendation:** Improve the **internal review of the internal audit quality** through the methodological framework and develop guidelines for heads of internal audit units on how to ensure the quality of internal audits.

**Status:** implemented

**Follow-up:** A model for internal quality reviews of internal audit units has been developed. In the first quarter of 2020, the CHU also drafted an early draft regulation governing external assessments of the quality of internal audit activities according to the peer review model. Until the enactment of regulations, the CHU continues to conduct external reviews of the quality of internal audit.

**Recommendation:** Develop a risk assessment methodology for audits of IPA funds; guidelines for the establishment of internal audit functions within small PFBs, in connection with the establishment of a joint internal audit unit that will be previously piloted and tested.

**Status:** Finalized

**Follow-up:** Guidelines for the establishment of the internal audit functions in small PFBs have been developed. The establishment of joint internal audit units was piloted in several municipalities in 2019, with the support of donor projects.

IPA Fund Audit Tools have been developed, which include a risk assessment model for IPA fund audits, as well as a system audit checklist for IPA audits.

All these guidelines were published on the website of the Ministry of Finance.

**Recommendation:** The **role of PFB managers is crucial** for the adequate establishment of the IA function, therefore the managers who have failed to set up an internal audit function in their organization should engage in the following tasks: in addition to filling the positions of internal auditors, they should ensure that IA recommendations are adequately implemented, and enable the independence of the IA by ensuring that auditors are not performing other tasks that may be subject to audit, as well as the professional development of internal auditors (*redefined and extended recommendation from last year's CAR*).

**Status:** partially implemented

**Follow-up:** This recommendation has been largely met by beneficiaries that have established a functional internal audit. In the newly established internal audits 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 their time is spent on other tasks unrelated to internal audit. The implementation of recommendations needs to be further monitored and improved.

### **The status of implementation of recommendations for the improvement of the CHU's activity**

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The first set of recommendations regarded the **improvement of the modality for the dissemination of knowledge** in the PIFC area:

**Recommendation:** 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.

**Status:** continuously implemented

**Follow-up:** In the course of 2019 a comprehensive set of guidelines (both new and updated ones) was prepared and published in the first quarter of 2020 in cooperation with the Twinning project.<sup>43</sup>

A set of 10 case studies was prepared for the e-learning platform to help participants prepare for the practical portion of the exam for internal auditors (in the testing phase)<sup>44</sup>.

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 Twinning project.

A short video clip was prepared on managerial accountability in cooperation with the Twinning project<sup>45</sup>.

The materials were published on the website of the MFin in the e-learning section of the CHU web page.

**Recommendation:** in 2018, the CHU started the process of relocating PIFC trainings in cooperation with the National Academy for Public Administration, but this is a complex process and requires a systematic approach, therefore a roadmap should be developed to guide this process in detail.

**Status:** implementation is underway

**Follow-up:** A proposal was submitted of the training plan for the NAPA for 2021, including new trainings aligned with Serbia's policy documents (PAR Strategy and PFM Programme), recommendations in the negotiation process with the EU and based on the CHU analysis.

Under the Twinning project, the CHU developed a roadmap for the reorganization of trainings, which entails a transition from the traditional instruction mode, to a combined or e-learning mode appropriate for distance learning.

The proposal of the new training program for the NAPA for 2021 – in addition to the existing trainings for FMC and IA and practical training for IA – includes a one-day FMC training for managers, training in managerial accountability and risk management, practical training for internal controls. The practical training for IA included case studies developed under the project support.

Trainings are envisaged for both full-time and distance learning.

**Recommendation:** improvement of the module for executives (managerial accountability, risk management)

**Status:** ongoing

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<sup>43</sup> The guidelines were published on the website of the Ministry of Finance (<https://www.mfin.gov.rs/o-ministarstvu/centralna-jedinica-za-harmonizaciju/>).

For detailed information please refer to the CHU Activities section of the CAR.

<sup>44</sup> Finalized in 2020, with the support of the UNDP/SEKO project.

<sup>45</sup> Published on the YouTube channel of the Ministry of Finance (<https://www.youtube.com/watch?v=s3DRAw6EIQg>).

**Follow-up:** An account is provided in the follow-up section of the previous recommendation.

**Recommendation: Promote** the importance of PIFC (CHU) with various target groups through relevant media channels and resources.

**Status:** Implemented, on a continuous basis

**Follow-up:** The importance of the reform of public internal financial control is promoted continuously through relevant media channels, and 2019 was marked by significant media presence, as well as two public events.<sup>46</sup>

**Recommendation:** Improvement of the monitoring and reporting system through electronic reporting via the CHU software, additional improvement of the Questionnaire, additional improvement of the Report

**Status:** Implemented

**Follow-up:** 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 performed analyses. The recommendations provided are more structural and less oriented toward the CHU. Separate chapters were prepared on the perspective of SAI and Budget Inspectorate. Emphasis was also placed on monitoring the recommendations contained in the EC Annual Progress Report, identified systemic weaknesses and recommendations for improvement of the PIFC provided by the CHU, the achievement of the objectives of the PIFC Strategy, while special attention is paid to the results of internal audit and internal control.

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).

Due to technical problems, software repair was initiated and implemented in 2019 in cooperation with the UNDP/SDC partners.

The software became operational at the end of 2019, once 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 Covid-19 pandemic.

The software is tentatively included in the reporting system for 2019, and its regular use is planned in the forthcoming period. Half of all received reports were submitted electronically.

**Recommendations: Improve the technical knowledge of CHU staff** by monitoring international practices

**Status:** implemented continuously

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<sup>46</sup> For a detailed overview please see the CHU Activities section.

**Follow-up:** Linked with the implementation of Strategic Objective 3 of the PIFC Strategy 2017-2020. See also the section on international cooperation in the account of CHU Activities.

### 3.5 CHU Activities

#### 3.5.1 Continuous development of methodological manuals and guidelines for internal audit and financial management and control

In 2019, the CHU worked on the adoption, improvement and harmonization of bylaws and methodological manuals and instructions in the field of internal audit and financial management and control systems.

*The Rulebook on professional development of certified internal auditors in the public sector* was adopted in March 2019. This Rulebook prescribes the areas and forms of professional training of certified internal auditors in the public sector and the criteria for the recognition of professional training.

*The Rulebook on common criteria and standards for the establishment, functioning, and reporting on the system of financial management and control in the public sector* was published in December 2019.

*The manual for financial management and control* was updated and published in February 2019.

In 2019, the CHU began working on analyses and development of proposal for amendments to the IA Rulebook and the Rulebook on Certification with a view to optimizing and improving the organization of internal audits, and improving the procedure for the certification of internal auditors.

In addition, in cooperation with the Twinning partner, the CHU developed an important set of methodological tools in the field of public internal financial control. Throughout 2019, sustained efforts were invested in preparing a set of guidelines<sup>47</sup>:

- *Guidelines produced under the Pilot Project* (please see the section focusing on managerial accountability);
- *Risk Management Guidelines* (update);
- *Guidelines for the Implementation of Internal Control Quality Reviews*.

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<sup>47</sup> The activities on the development of the guidelines were completed in 2019. The guidelines were published on the website of the Ministry of Finance after the completion of the Twinning project in the first half of 2020.

A representative showcase example of managerial accountability, developed by the Twinning project, was posted on the e-learning platform of the National Academy for Public Administration (NAPA). The materials were also published on the MFin website in the e-learning section of the CHU web page.

The Internal Audit Manual was updated, and the following guidelines were developed in the field of internal audit:

- *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;*
- *Guidelines for the implementation of internal audits of joint intersectoral programmes and projects - "Horizontal audits".*

### **3.5.2 CHU activities to improve the concept of managerial accountability**

The concept of managerial accountability is an important pillar of the public administration reform. This topic is considered a key issue in numerous discussion forums on public internal financial control and a prerequisite for its implementation. The concept of managerial accountability was introduced in the public internal financial control system in Serbia through the definition provided under the BSL and further specified through the latest amendment to the FMC Rulebook.

Throughout 2019, the CHU implemented activities on promoting the concept of managerial accountability so that this concept would become part of a broader administrative culture in the public sector of the Republic of Serbia.

CHU activities focused on developing new methodological tools for elaborating the topic of managerial accountability and improving this concept through the pilot project implemented under the Twinning project.

In cooperation with the Twinning Partner, a pilot project was implemented with the aim of testing and improving a key concept in four pilot institutions – managerial accountability, in accordance with EC recommendations. The pilot project greatly influenced the development of a set of methodological materials related to the concept of managerial accountability.

Methodological materials in the form of guidelines are a good basis for the implementation of selected management elements in the pilot institutions, because their application in these institutions has identified weaknesses the elimination of which will be planned in strategic policy documents, the development of which is yet to follow.

Guidelines on the managerial accountability concept were prepared and published on the CHU website in August 2018. The guidelines were updated in the first quarter of 2020 as part of the Twinning project.

In cooperation with the Twinning partner, in 2019, and in 2020, under the Pilot Project the CHU developed and published the following methodological materials related to the concept of managerial accountability:

- *Delegation System Guidelines*;
- *Performance Management Guidelines*;
- *FMC Guidelines for Small Public Funds Beneficiaries*;
- *Guidelines for Financial Departments*;
- *Guidelines for Managing Irregularities*;
- *Managerial Accountability Guidelines* (update).

As part of the Twinning project, trainings were held in 2019 with the aim of strengthening managerial accountability.

A short video on managerial accountability was also prepared and posted on the YouTube channel of the Ministry of Finance.

Also, in the context of the development of managerial accountability, intensive coordination and cooperation was established in 2019 with institutions and organizational units that are key to this area, such as the MPALS, PPS and the Budget Department, the support of the General Secretariat of the Government of Serbia was obtained, and a joint approach to the development of managerial accountability was agreed, which will be further developed within the Subgroup on Accountability and Transparency of the Working Group for the development of the PAR Strategy (supported by SIGMA and the EC).

FMC quality reviews were carried out in two PFBs and guidelines were developed for conducting internal control quality reviews with a view to strengthening this concept in practice.

With the support of GIZ, activities on the introduction of the concept of performance management were continued, as part of managerial accountability. 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). In this way, preparations were completed, from the professional and methodological aspect, for the implementation of activities related to performance management within the next PAR strategic document.

### **3.5.3 International cooperation**

Through its Public Expenditure Management Peer Assisted Learning Network (PEMPAL), the World Bank organized meetings of the Audit in Practice Working Group (AiP WG) and meetings of the Internal Control Working Group (IC WG) in Skopje (Northern Macedonia) in April 2019, which was attended by representatives of the Department – Central Harmonization Unit. Meetings of these working groups, organized by the World Bank again, were also held

in the Russian Federation (Sochi) in October 2019.

The topics discussed at the meetings included good practices in the implementation of internal controls in the public sector, understanding, application and criteria for the evaluation of the second and third component of the COSO framework. Also, one of the topics was the establishment of links between the COSO framework principles and the “three lines of defence” model, discussion and adoption of guidelines for planning audit engagements, field work as a phase of the audit engagement: expectations, challenges, methods and results, research on best practices in the reporting phase of the internal audit engagement process, receiving insights on the internal audit developments in the hosting country, exploring the role of the internal audit function in detecting fraud and corruption, presenting the PEMPAL guidance for internal auditors in assessing the effectiveness of internal control and agreeing on the glossary, exploring practical tools applied in the public sector for implementing COSO principles related to risk management and control activities.

Representatives of the Ministry of Finance, Department – Central Harmonization Unit participated in the 5th Regional Conference on Internal Financial Control for EU Member States and EU candidate countries held in Skopje (Northern Macedonia) in September 2019, organized by the Regional School for Public administration - ReSPA. The topic of the Regional on Managerial Accountability and Professionalization of Senior Civil Service for better performance and accountability was dedicated to discussing managerial accountability in comparative practice in the countries of the Western Balkans. The conference was attended by representatives of the Budget Directorate of the European Commission, SIGMA, ReSPA Albania, Bosnia and Herzegovina, Northern Macedonia, Montenegro, and Serbia.

### **3.5.4 Promoting the importance of internal financial control**

The Central Harmonization Unit of the Ministry of Finance in cooperation with the RELOF 2 project is focused on PR initiatives, with the aim of improving visibility and informing the public about the importance of financial management and control and internal audit.

In the reporting period, the focus of the media and communication activities was on the establishment and implementation of a communication plan on public internal financial control reform at the local level, which is part of the support provided by the RELOF 2 Project to the Ministry of Finance.

According to the Media Activity Plan, a working breakfast for the members of the press was organized for the 10 major media outlets in Serbia in November 2019, where representatives of the Ministry of Finance explained the importance of establishing financial management and control and internal audit. This activity resulted in 11 articles and TV reportages, including two news reports in shows on RTS and TV Happy (with national frequency).

In addition to these events, the Ministry of Finance is also involved in the Support to Public Administration Reform Visibility and Communication project under the PAR Sector Reform Contract, supported by the RELOF 2 Project.



To promote financial management and control and internal audit and to better understand these topics, a media briefing was held in Niš in December 2019, under the auspices of the Support to Public Administration Reform Visibility and Communication under the PAR Sector Reform Contract.

Two events were organized in 2019 under the project implemented by the CHU with the support of the United Nations Development Agency (UNDP).

In July 2019, a kick-off meeting was held to mark the beginning of the Accountable Public Finance Management Platform project, funded by the Swedish International Development Agency (SIDA), implemented by the United Nations Development Programme (UNDP). The project will assist the CHU with improving the status of internal auditors in the public sector and the implementation of EU best practices in this area.

At the end of October 2019, the final conference was held to mark the end of the Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management project, funded by the Swiss Development Cooperation Office (SDC) and implemented by the UNDP. The project aimed to build and raise awareness of the need to introduce internal audit and financial management and control at the local level.

### **3.5.5 Trainings**

#### **Financial management and control**

In 2019, the CHU, with the support of the GIZ project, completely updated the materials for the five-day FMC training it organizes. The update was implemented in response to the need to ensure compliance with the new FMC Manual and COSO 2013.

In 2019, the four cycles of the basic FMC training included a total of 388 participants from various public sector institutions of the Republic of Serbia.

A total of 77 specialized one-day trainings were conducted for top and middle management, with special emphasis on specific topics tailored to the specific requirements of PFBs, including: establishment and implementation of financial management and control, managerial accountability, establishment of the risk management process and the importance of internal audit.

#### **Internal audit**

The theoretical part of the internal audit training included 95 participants employed by PFBs. In the period January – December 2019, the training for practical work in internal audit held at 31 PFBs included 37 candidates for the title of certified internal auditor in the public sector.

In two exam terms in 2019, 50 candidates passed the exam and thus acquired the title of certified internal auditor in the public sector. By the end of 2019, a total of 463 internal auditors had been certified in the public sector. According to the received Annual Reports, out of a total of 485 employed internal auditors, 310 of them acquired the title of certified internal auditor in

the public sector. The certification scheme itself, which includes mentoring, and hands-on training of candidates by the CHU in the form of two audits at PFBs where the internal auditors were employed before taking the exam, is demanding from the point of view of capacity, because, in addition to taking up a large number of working days, it also requires great expertise of the mentor. To reduce the need for direct engagement of CHU employees, the current certification scheme needs to be made more efficient by expanding the availability of training and the possibility of obtaining a certified internal auditor certificate.

### **Trainings realized in cooperation with the Twinning programme**

In cooperation with experts from the Twinning project: Support to Further Development of Public Internal Financial Control (PIFC), the CHU organized the following trainings:

1. Two one-day workshops on "Managerial Accountability in the French Administration", on 28 February 2019 and 1 March 2019 (with a total of 34 participants, including the top management of MFin, participants from MPALS, NES and PPS);
2. Training in the RACI methodology (Responsible, Accountable, Consulted, and Informed), a tool for enhanced identification, delegation, and monitoring of powers and responsibilities, held on 28 June 2019, for representatives of pilot institutions - MFin, MPALS, and NES;
3. Workshop on "Strategic Risks" for representatives of the MPALS, 16 August 2019
4. Presentation on the "Performance Dialogue at the French Ministry of Finance of France", held on 15 October 2019, for representatives of pilot institutions.
5. Training on Performance Evaluation System, held on 7 November 2019 for representatives of pilot institutions, including representatives of the top management of the MFin.
6. Training on "Roles and responsibilities of various actors involved in financial management and control", 12 December 2019 for FMC coordinators.
7. Two-day workshop "Audit of IPA funds", 24-25 April 2019.

### **Trainings implemented in cooperation with the National Academy for Public Administration**

In 2019, the National Academy for Public Administration organized two trainings on financial management and control and internal audit. The trainings were held in September and October, and 22 participants attended the trainings. All participants were executives in their respective public bodies or organizations. Intensified cooperation between the Department – Central Harmonization Unit and the National Academy for Public Administration is planned with a view to improving the training process in the field of public internal financial control.

### **Continuous professional development of certified internal auditors in the public sector**

According to the Rulebook on Professional Development of Certified Internal Auditors in the Public Sector (RS Official Gazette No. 15/2019), applicable from 1 January 2020, certified

internal auditors in the public sector of the Republic of Serbia were required to submit their respective reports on professional development for 2019 to the Central Harmonization Unit by 31 January 2020.

The Rulebook on Professional Development defines areas and forms, criteria for recognition, reporting and records on professional training.

As on 31 December 2019, there were 463 certified internal auditors in the public sector in the Republic of Serbia, in total. The report on professional training for 2019 was submitted by a total of 246, i.e. 53% of internal auditors in the public sector. Of the total number of certified internal auditors in the public sector that submitted the Report on Professional Development, 222 (48%) stated that they held an internal auditor position.

Pursuant to Article 7 of the Rulebook on Professional Development of Internal Auditors in the Public Sector, a certified internal auditor in the public sector must earn at least 50 points for professional training in the course of one year, of which at least five points through organized professional training. Out of the total number of submitted reports on professional training, 167, i.e. 68% of certified internal auditors in the public sector met this requirement, while a total of 63, i.e. 25.6% of certified internal auditors in the public sector did not. In total, 16, i.e. 6.5% of the total number of certified internal auditors in the public sector who submitted the reports, failed to earn any points, i.e. had 0 points, for justified reasons stated in the Report.

For the purpose of ensuring the continuous professional development of certified internal auditors in the public sector, the CHU organized two training cycles in 2019 entitled: "Continuous professional development of internal auditors in the public sector and key innovations in the field of financial management and control". The trainings, which were attended by a total of 202 certified internal auditors in the public sector, were held on 6 and 7 June 2019.

2019 was year "zero" in which the obligation of professional training of internal auditors was introduced and expectations were met. That said, starting from the next reporting period, the number of submitted reports as well as the number of internal auditors who earned the required number of points should be higher. In the process of reviewing the quality of the IA activity, the CHU was informed that internal auditors are often prevented from attending certain trainings due to the lack of funds for this purpose in the organizations' budgets.

## **IV WEAKNESSES AND RECOMMENDATIONS**

Weaknesses and recommendations for further development and improvement of the internal financial control system in the public sector 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**

Although some progress has been made in the FMC area, the following *weaknesses* need to be highlighted:

- It is evident that the biggest and most important institutions, i.e. those that account for the largest share of the RS budget expenditures and disbursements, are regularly reporting on their FMC systems. That said, all PFBs in Serbia are required by law to submit their reports to the CHU, but the share of municipalities and PEs/PUCs at local level reporting on the status of the FMC system is still unsatisfactory. Also, some cities did not submit their reports on the status of their FMC systems;
- Local level entities overall reported lower scores relative to the national level, across all elements of the COSO framework;
- The weakest indicators were noted in **indirect budget beneficiaries, both at central and at local level**;
- **The monitoring and evaluation of the FMC system** is still the COSO framework component with the **weakest scores**. This element is expected to improve in parallel with the development of the IA function. There is room for improvement in the field of irregularities management;
- The average scores of different groups of PFBs indicate that **risk management was the second lowest-rated COSO and that it is not fully enforced in Serbia**;
- Updates of business processes and reviews of control activities for risk management are not implemented regularly in practice.

The following *recommendations to public funds beneficiaries* are intended to ensure that the identified weaknesses are eliminated, (*recommendations intended to bring structural improvements in the regulatory and methodological frame are listed in the Recommendations related to the CHU*):

- ✓ **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<sup>48</sup>, regularly report to reach and demonstrate that COSO standards are applied in their organizations.
- ✓ **The PFBs that are still not reporting to the CHU** on the establishment of the FMC system, and that fall into one of the priority groups of PFBs, such as **direct beneficiaries of Serbia's budget, local government units, and all other PFBs with over 250 employees**, should immediately get involved in the reporting process and start working on improving the FMC system in their respective organizations, based on the COSO principles according to the FMC Manual and other methodological tools produced by the CHU (*redefined recommendation from last year*).
- ✓ Greater involvement is needed of direct beneficiaries in the process of improving the

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<sup>48</sup> For additional information, please refer to: <https://www.mfin.gov.rs/o-ministarstvu/finansijsko-upravljanje-i-kontrola/>.

FMC system in indirect budget beneficiaries that are within their competence. In addition to the support they can provide, direct budget beneficiaries would thus also improve the overall management and achievement of their own objectives in which indirect budget users also participate.

- ✓ Further work is needed to **improve risk management**. In this context, the public funds beneficiaries have at their disposal Guidelines and tools<sup>49</sup> which were prepared and improved over the course of 2018 and 2019. Risk management should continue to be emphasized through training. This is a multi-year recommendation, and the risk management culture is the biggest novelty that the COSO framework has brought to the public sector of the Republic of Serbia (*repeated recommendation from the Consolidated Annual Report for 2018*).
- ✓ In the context of improving the FMC system, PFBs should work on the development of an **irregularity management** system in their organizations in accordance with the requirements of the FMC Rulebook and the Guidelines for Irregularity Management<sup>50</sup>.
- ✓ The PFBs should be committed to issues related to the establishment and maintenance of the risk register, as well as updating control activities that serve to reduce the risk to an acceptable level, especially given the fact that these obligations are provided by regulations governing the FMC system.<sup>51</sup>
- ✓ The updated FMC Manual can be downloaded from the CHU's web page on the Ministry of Finance's website<sup>52</sup>, along with many other learning products in the FMC and managerial accountability field and all PFBs are advised to use these. The methodological guidelines best meet the expressed needs for training and knowledge in the FMC area. The CHU is also available for additional consultations.

## 4.2 Internal audit

While the internal audit function is set up and functional in an increasing number of PFBs, the following *weaknesses* were identified in this area:

- Stagnation was noted in the development of the internal audit function at the central level of government, where there has been a 1% decline in the number of internal auditors relative to the last year. The Ministry of Youth and Sports,<sup>53</sup> the Ministry of Environmental Protection and the Ministry of Foreign Affairs did not fill a single

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<sup>49</sup>For additional information please refer to: <https://www.mfin.gov.rs/o-ministarstvu/finansijsko-upravljanje-i-kontrola/>.

<sup>50</sup> See: <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-za-upravljanje-nepravilnostima.pdf>.

<sup>51</sup> Article 8 of the Rulebook on common criteria and standards for the establishment, functioning, and reporting on the financial management and control system in the public sector.

<sup>52</sup> See: <https://www.mfin.gov.rs/o-ministarstvu/finansijsko-upravljanje-i-kontrola/>.

<sup>53</sup> The Ministry of Youth and Sport has engaged an internal audit consultant to perform internal auditing activities under a service agreement.

internal auditor position. In 11 out of a total of 18 ministries, internal audit units do not have the minimum required three internal auditors employed. In accordance with Article 6, paragraph 1 of the IA Rulebook, cities are required to have a fully staffed internal audit unit, and only 21% of cities meet this obligation.

- A significant percentage of established internal audits with two or fewer auditors raises doubt as to whether internal audit standards can be fully observed.
- Although an effort has been 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. Furthermore, 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 wastage, considering the average age of internal auditor staff.
- The existing certification scheme is demanding in terms of the large workload and the lack of CHU capacities.
- In the field of methodology, it was noted that a significant number of PFBs does not have quality assurance and improvement programmes, aside from regular oversight by the head of internal audit.
- Insufficient support by PFB managers is one of the causes of identified weaknesses when it comes to staffing internal audit units, implementing IA recommendations, performing other non-IA tasks, and enabling professional training of internal auditors.
- Failure to implement annual internal audit plans, seen through an increase in the number of planned audit engagements not implemented, along with the same number of implemented engagements relative to the previous year, may be due to: inadequate and often over-ambitious planning, regular annual audits conducted by the SAI, which may significantly affect the implementation of the plan, increasing the number of follow-up audits "on request", reducing the efficiency in conducting internal audit engagements and limiting staff capacities.
- An increase in the number of recommendations not implemented in the reporting period, including those not implemented past the deadline, which may be due to a combination of several causes, specifically: failure to delegate individual responsibility for implementation of recommendations, weak monitoring of implementation of audit findings, inadequate reporting on the status of implementation of the plan of activities by the auditees and unsatisfactory quality of audit findings and recommendations.
- When conducting audit engagements, information technology risks are largely abstracted, which may be a consequence of the lack of methodological framework for conducting IT audits, insufficient training and knowledge of internal auditors in the field of information technology, cyber security and IT risks, but also lack of specific staff to conduct these audits.
- A significant number of recommendations not accepted in the reporting period is indicative of issues related to cooperation with auditees as well as to insufficient understanding of the role of internal audit in the organization. The reasons for non-acceptance of recommendations are not specifically considered in the questionnaires of the annual report on performed audits and internal audit activities.

The following *recommendations* are issued for the elimination of identified weaknesses:

✓ Recommendations related to **staffing IA units** and improving the **professional status of internal auditors**:

- All PFBs should harmonize the systematization, number of staff and fill in the internal auditor positions in accordance with the regulations, risks, complexity of operations and the amount of resources they manage;
- By way of priority: The Ministry of Youth and Sports and the Ministry of Mining and Energy should harmonize the job systematization (staffing plan) in accordance with Article 5, paragraph 2 and Article 3, paragraph 3 of the IA Rulebook and fill the positions of internal auditors as soon as possible; the Ministry of Environmental Protection, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Economy, Ministry of Trade, Tourism and Telecommunications, Ministry of Agriculture, Forestry and Water Management, Ministry of Labour, Employment, Veteran and Social Affairs, Ministry of Construction, Transport and Infrastructure, and Ministry of Public Administrations and Local Self-government should, as soon as possible, within their existing human resources capacity, select or employ appropriate staff to fill the positions of internal auditors; The cities of Kruševac, Vranje, Kikinda, Pančevo, Sremska Mitrovica, Loznica, Pirot, Prokuplje, Jagodina, Bor, Valjevo, Smederevo, Čačak, Leskovac, Šabac, Zaječar, Vršac, Kraljevo and Sombor should harmonize the systematization in accordance with Article 6, paragraph 1 and Article 3, paragraph 3 of the IA Rulebook and fill internal auditor positions as soon as possible; The cities of Niš, Požarevac and Subotica 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 senior management in PFBs is crucial** for the adequate establishment of the internal audit function. Therefore, the managers who have not adequately established an internal audit function at their institution should, aside from 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 audit performance, and facilitating the professional development of internal auditors.

The heads of internal audit 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 internal audit units recommended by the CHU.

- ✓ In addition to strengthening staff capacities, the following activities should be implemented **to achieve the annual internal audit plan as well as the efficient implementation of audit engagements whilst reducing the number of non-implemented engagements**:
  - Each PFB should consider all the listed individual causes for non-implementation of audit engagements and seek to resolve these.
  - 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**. The increase in the number of consulting engagements, which is stated as one of the reasons for the failure to meet the annual internal audit plans, should not be accomplished by reducing the number of planned audits conducted, or the number of assurance engagements. The annual work plan, in addition to a realistic assessment of the required audit days for performing assurance and consulting services, should also contain details on potential engagements, the purpose and objective of the engagements, as well as the structure of the audit team tasked with implement such engagements. Rather than being a regular practice, “on-demand” audits should be an exception.
  - In the coming period, the CHU should specifically focus on analysing the reasons for non-acceptance of recommendations by auditees.
  
- ✓ Recommendations related to **setting up and developing IT audits**:
  - The CHU should provide additional support for the **establishment 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 recruit potential staff for this type of audit.
  - The PFBs should improve the risk assessment in the annual internal audit planning process, which should especially identify the risks to information systems and information security. These risks, because of their importance, should be an integral part of the programme of any audit engagement, not just IT audits.

### 4.3 Central Harmonization Unit

In 2019, intensive work was done on the implementation of the recommendations made by the European Commission in its Progress Report in the context of the negotiations Chapter 32, as well as the recommendations from the Consolidated Annual Report on the status of PIFC for 2018. Significant efforts were made in the process of creating methodological tools and formulating and implementing other measures and activities aimed at improving the PIFC system. On the other hand, certain *weaknesses* have been identified, of which the most significant are:

- Electronic annual reporting by the PFBs is not yet fully established.



- The need has been identified for improving the regulatory and methodological frameworks in certain areas of financial management and control as well as internal audit.
- The preparation of candidates for the exam for certified internal auditor, both the theoretical and practical components of the training, is fully reliant on CHU employees.

The following *recommendations* are made with a view to overcoming these weaknesses:

- ✓ Improve the system of monitoring and reporting (to the CHU) on internal controls, by fully transitioning to electronic reporting.
- ✓ In the context of the weaknesses identified in the FMC system, it is necessary that the regulatory and methodological framework be improved:
  - Regarding the obligation to submit annual reports on the FMC system, a circle of PFBs should be defined which would include primarily the most important institutions of Serbia's public sector, and also the largest one in terms of the number of employees. They would be the subject of the Consolidated Annual Report, so that the focus in the development and monitoring of the internal control system would be on the largest and most important public funds beneficiaries.
  - At the same time, the increase in the number of submitted reports on the FMC system should be further encouraged by prescribing penalty provisions for non-compliance for the most important circle of beneficiaries.
  - In the coming period, with the support of the donor community, additional tools should be prepared for specific types of PFBs.
- ✓ Based on the identified IA weaknesses, the CHU should further **improve the regulatory and methodological framework**, as follows:
  - The CHU should analyse and consider changing the criteria for establishing the internal audit function and internal audit units in the PFBs prescribed in the existing regulations, in order to optimize the number of required auditors, improve performance and compliance with internal audit standards;
  - Through changes in the regulatory and methodological framework, the CHU should specify in more detail:
    - the procedure and obligation of auditees to regularly report to the IA on progress made in implementing the action plan;
    - the obligation and time frame for the implementation of follow-up audits;
    - the obligation to transparently delegate individual responsibilities for the implementation of internal audit recommendations, by specifically identifying the person responsible;
    - the form and mandatory elements of the audit report, with special emphasis on the form and structure of findings and recommendations;
    - the conditions under which auditees are not required to accept the internal audit, and their disclosure.

- The CHU should make the necessary adjustments and improvements to the existing regulatory and methodological framework for the purpose of establishing and defining reporting and disclosure on the status of implementation and potential reasons for failure to carry out the audit plan;
  - The CHU should improve guidelines for internal quality assessment of internal audit;
  - The CHU should develop a methodological framework for conducting an external quality assessment of internal audit using the peer review method.
- ✓ 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.

## CONCLUSION

Based on the overall findings of the analysis we can conclude that 2019 was a very successful year in the field of PIFC, even when we take into account the impact of the introduction of a nation-wide state of emergency due to the Covid-19 pandemic in the final phase of submission of the individual PFBs' reports, which led to difficulties in accessing the appropriate documentation and, in turn, to a delay in the preparation of the Consolidated Annual Report (CAR).

A significant percentage of the recommendations made by the European Commission in its Progress Report in the context of negotiations Chapter 32 have been implemented (more than 95%). The only reason that some recommendations have not been fully implemented is that their implementation is ongoing on a permanent basis. In its Progress Report for 2020, the European Commission assessed Serbia's progress in the field of public internal financial control as good. The recommendations from the Consolidated Annual Report on the Status of the PIFC for 2018 have been largely implemented (around 60%). The implementation of the rest of the recommendations is ongoing on a continuous basis. 82% of the planned activities from the PIFC Strategy Action Plan have been implemented in full, and 18% in part.

In 2019 intensive work was done to ensure the implementation of the pilot project<sup>54</sup> in cooperation with the Twinning partners. The results of this pilot project (methodological guidelines, testing existing possibilities and concrete implementation of key concepts in pilot institutions) had a crucial impact on improving managerial accountability and paving the way for its future strategic development. In 2019, the strengthening of managerial accountability in Serbia's administrative culture gained new momentum with the involvement of key government institutions (the General Secretariat, the Statistical Office of the Republic of Serbia, the MPALS, the PPS, the Human Resources Management Office, the NAPA, with the constant presence of the CHU). These key government institutions formulated measures and activities intended to improve PIFC in the next strategic period, first through an informal group and subsequently through an official Working Group on Accountability and Transparency under the new PAR Strategy.

The first two FMC system quality reviews were conducted in two PFBs. This quality review is a new function established in the CHU that will provide the CHU with a better insight into the FMC systems on the ground, and at the same time public funds beneficiaries will receive specific advice and recommendations.

Throughout 2019, intensive activities were implemented with a view to improving the regulatory and methodological framework. Two rulebooks were adopted, and the FMC Manual was updated. The IA Manual was also updated and as many as twelve guidelines/models and

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<sup>54</sup> The implementation of the pilot project was finalized in the first half of 2020. године. Aside from the CHU, the NES, PPS, MPALS and MFin also participated in the pilot project. An additional contribution was made by the Ministry of Economy in 2020 in the area of improving performance management.

one video were produced in different areas of FMC, internal audit and managerial accountability in the first half of 2020.

This reporting period was marked by the beginning of the electronic submission of PFB reports on the status of the FMC system and IA activity, with the use of the appropriate CHU application. Reporting was further improved through the modernization of the questionnaire on FMC and IA, and by raising the level of analysis of IA.

A significant share of the most important institutions and public enterprises at the national level, which account for the largest share of state budget expenditures and disbursements, as well as for the largest share of revenues in the PEs' group, are reporting on the status of the FMC system. At the local level, the provincial and city authorities and services largely fulfil this obligation, at least when it comes to the coverage rate of the total budget. There has been **steady progress** in assessing the application of the principles of the COSO framework in PFBs that are reporting regularly to the CHU. The categories of MSIOs, PEs and ministries and their constituent administrative bodies, i.e. direct budget funds beneficiaries at the central level, are generally taking the lead when it comes to assessing the status of the FMC system. The information and communication system was the best rated element of the COSO framework in 2019. The overall results in the field of integrity and ethical values give cause for optimism. On average, all categories of PFB highly rated the level of the overall establishment of the organizational structure, reporting lines, authorities, and responsibilities, as well as human resources management. There are reasons for satisfaction in the spheres of defining control activities, IT infrastructure development planning and perception of IT security by PFBs. In addition, most organizations regularly monitor the achievement of goals. The causes of possible non-fulfilment of goals are also well-analysed.

The functional internal audit covered **over 80% of the budgets of direct budget beneficiaries** at the central government level, mandatory social insurance organizations, the Autonomous Province of Vojvodina, cities as well as public enterprises at central level.

A 9% increase was observed in the total number of PFBs in which the internal audit function was established relative to 2018. The number of systematized jobs increased by 7%, but the number of filled positions in 2019 was only 0.4% higher than in the previous year.

A slight increase in the share of recommendations made in the field of information systems for individual public funds beneficiaries shows that internal audit is beginning to focus on this area, which has a significant role from the aspect of risk and which needs to be further improved.

The number of consulting audit engagements increased by 13% relative to the previous year, which is indicative of increased interest of PFBs in this type of engagement, but in parallel the number of planned audits that were not implemented also increased by the same percentage.

The analysis of annual reports of PFBs, information collected in the process of reviewing the

quality of FMC systems and reviewing the quality of IA activity at PFBs, and also information on progress in achieving the objectives outlined in strategic policy documents (PIFC Strategy, PFM Program, PAR Strategy) and implementation of EC recommendations and previous Reports on the status of the PIFC provided the CHU with insight into the situation in the field of PIFC for 2019, based on which the CHU has made recommendations for the future development and improvement of the system, outlined in this Report.

Considering their key role in the internal control system, PFB managers were given specific recommendations on how to support the FMC system and IA activities in the organizations they manage.

The key areas of the COSO framework that need to be further addressed in a significant number of institutions are *monitoring and evaluation*, as well as *risk management*.

To improve the quality and scale of reporting, a recommendation was formulated for priority PFBs which are not yet in the CHU reporting system on internal controls, and changes were envisaged in regulations as well as further activities to improve the reporting software.

Given that the FMC systems of the indirect budget beneficiaries' group reported the lowest average scores, a greater involvement of direct beneficiaries is recommended in the process of improving the FMC systems of indirect budget beneficiaries within their purview.

The need for trainings in the field of internal controls exceeds the capacities of the CHU, so the system of professional training and development, as well as the training itself, should be continuously improved. In the future, the dissemination of knowledge will rely more on individual learning rather than conventional training.

Given the observed stagnation in the development of the IA function, a concrete recommendation was made, by way of priority, to all ministries and cities that have yet to fulfil their statutory obligation and establish an internal audit unit.

Having in mind the established need to fill the positions of internal auditors and improve the professional status of internal auditors, adequate recommendations were formulated for public funds beneficiaries who have not yet fully planned and staffed their IA units. The recommendations also apply to the CHU itself, regarding the need to analyse the professional status of internal auditors in Serbia's public sector.

Needs were identified for improving the regulatory and methodological framework that would result in the optimization of the IA organization, improvement of the certification of internal auditors, reduction of the number of recommendations that are not accepted, improvement of the quality of IA, optimization of planning, increasing the efficiency of audit engagements and reducing the number of recommendations not implemented. In addition, very detailed and concrete recommendations were prepared for internal auditors, the implementation of which would improve the above-mentioned aspects of internal audit.

Given that the current PIFC Strategy expires in 2020, the strategic direction of PIFC development in the coming period will be set under a special pillar within the PFM Program, with a view to fully implementing COSO principles in Serbia's public sector.

The strengthening of the FMC system quality review function and the quality of internal auditing will be the key instrument for the development of the PIFC in the future.

## **ANNEXES**

## **Annex 1. Legal framework and international standards**

### **REPORTING METHODOLOGY**

Article 83 of the 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 and 113/2017, 95/2018, and 31/2019 and 72/19), 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 2017–2020<sup>55</sup> (RS Official Gazette of RS No. 51/17), 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 (RS Official Gazette No. 26/2019).

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

The PFM 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 31<sup>st</sup> 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 31<sup>st</sup> 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 15<sup>th</sup> of the current year for the previous year, while the PFB

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<sup>55</sup><https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Strategija%20razvoja%202017-2020.pdf>



manager, in turn, submits the report to the CHU, no later than March 31<sup>st</sup> of the current year for the previous year.

## **FINANCIAL MANAGEMENT AND CONTROL**

### **National legislation**

In addition to the Budget System Law and the FMC Rulebook, 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 and 95/18);
- 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);
- Law on Public Enterprises (RS Official Gazette No. 15/16 and 88/19);
- Decree 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);
- 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);
- 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).

### **2.2 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 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. It 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, internal audit 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:

- the Budget System Law;

- the IA Rulebook;
- the Certification Rulebook;
- the Professional Training Rulebook;
- the IIA's International Standards for Professional Practice of Internal Auditing;
- the PIFC Strategy.

Article 82 of the Budget System Law prescribes that a public fund beneficiary is obliged to introduce the internal audit function, as an 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:

- 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	No.	Measure /Activity Time frame Indicator Lead agency Partner institution	Status	Monitoring of objectives by activity from the CAR for 2019
<b><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></b> (Strategic Objective 1, the overview below shows the operational objectives)				
<b><i>1. Strengthening the coordination of financial management and control and internal audit activities by the CHU</i></b>				
1. Strengthening the coordination of financial management and control and internal audit activities by the CHU	1.1	<b>Measure/activity:</b> 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. <b>Time frame:</b> <u>Continuously, starting from Q1 2019</u> <b>Indicator:</b> Reports/ minutes from meetings <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>Other listed MFin organizational units</u>	Finalized	<b>Follow-up:</b> Activities with the 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.
	1.2	<b>Measure/activity:</b> Organization of meetings with PFB managers /FMC coordinators and internal auditors <b>Time frame:</b> <u>Continuously, starting from Q1 2019</u> <b>Indicator:</b> Reports/minutes from meetings <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	Finalized	<b>Follow-up:</b> the CHU holds regular consultations and meetings with PFB managers, FMC managers/coordinators and internal auditors.
	1.3	<b>Measure/activity:</b> 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 <b>Time frame:</b> <u>At least once a year</u> <b>Indicator:</b> Seminars held PV: 0; CV: 2 <b>Lead agency:</b> MFin/CHU, Department for Contracting and Financing of EU Funded Projects, Department for EU Funds Management <b>Partner institution:</b> /	Finalized, Exceeded target	<b>Follow-up:</b> The enhancement of the IPA system internal audit has been the key activity in 2019, implemented by improving the IA model currently in place. In addition, trainings were organized under the Twinning project targeting key staff and internal auditors in the IPA system.

	1.4	<p><b>Measure/activity:</b> Cooperation with the State Audit Institution through the working group and coordination of the exchange of experiences</p> <p><b>Time frame:</b> <u>Continuously, starting from Q1 2019</u></p> <p><b>Indicator:</b> Reports / minutes from the meetings</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> <u>SAI</u></p>	Finalized	<p><b>Follow-up:</b> Cooperation with SAI is a continuous activity which takes place through working group meetings while experience exchange is coordinated through bilateral meetings.</p>
	1.5	<p><b>Measure/activity:</b> Coordination of activities with the NAPA in developing curricula required for the potential relocation of trainings and use of database</p> <p><b>Time frame:</b> <u>Continuously, starting from Q1 2019</u></p> <p><b>Indicator:</b> Finalized curriculum, PV: 0; CV: 3</p> <p><b>Lead agency:</b> <u>MFin/CHU, National Academy for Public Administration (NAPA)</u></p> <p><b>Partner institution:</b> /</p>	Finalized	<p><b>Follow-up:</b> With respect to the coordination of activities with the NAPA in developing the required curricula for the potential relocation of trainings and the use of databases, the target indicator related to the development of curricula has been met (four curricula were prepared). In addition, the CHU prepared a roadmap for the reorganization of trainings as part of Twinning project activities which entailed the transition from the conventional instruction format to a combined or online format suitable for distance learning.</p>
<p><b>2. Continuous development of methodological manuals and guidelines for internal audit and financial management and control</b></p>				
2. Continuous development of methodological manuals and guidelines for internal audit and financial management and control	2.1	<p><b>Measure/activity:</b> 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><b>Time Frame:</b> <u>Continuously, starting from Q1 2019</u></p> <p><b>Indicator:</b> Documents published on the CHU website</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> /</p>	Finalized	<p><b>Follow-up:</b> A great many activities were implemented in 2019, related to the adoption, upgrading and aligning of IA and FMC by-laws, methodological manuals and instructions, in accordance with international practices and existing internal control standards.</p> <p>In March 2019, a Rulebook was adopted regulating the professional training of internal auditors in the public sector, prescribing the fields and forms of professional training and criteria for the recognition of professional training. In December 2019, the FMC Rulebook was enacted, prescribing the elements constituting the FMC system, and the functioning and establishment of, as well as reporting on the FMC system. The new FMC Rulebook is now aligned with amendments to international internal control standards (INTOSAI), which include the Internal Control—Integrated Framework concept of the COSO framework, established by the Committee of Sponsoring Organizations – COSO of the Treadway Commission.</p> <p>The FMC Rulebook has been updated and published on the CHU website in February 2019, along with the methodological instructions and guidelines for the establishment and functioning of the FMC system.</p> <p>A number of guidelines were prepared with the help of the Twinning project, finalized in the first half of 2020 and posted on the CHU website (please refer to the section on CHU activities).</p>
	2.2	<p><b>Measure/activity:</b> Further development of coordination among internal auditors, executives/coordinators for financial management and control, the Treasury Administration and State Audit Institution, for the purpose of developing and harmonizing methodological manuals and instructions with</p>	Implemented	<p><b>Follow-up:</b> 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,</p>

		<p>national practice  <b>Time frame:</b> <u>At least once a year</u>  <b>Indicator:</b> Reports from meetings  <b>Lead agency:</b> <u>MFin/CHU</u>  <b>Partner institution:</b> <u>Treasury Administration, SAI and PFBs</u></p>		<p>mostly through regular consultations with PFBs in the field of FMC and IA, as well as by participating in and hosting seminars, including a conference on "Financial reporting of local governments", organized by the SAI, in August 2019 in Arandelovac, where one of the keynote speakers was a member of the CHU staff. Also, at the end of October 2019, a closing conference was held to mark the end of the project titled "Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management", funded by the Swiss Cooperation Office (SDC) and implemented by the UNDP, in which the SAI participated. The project aimed to strengthen and raise awareness on the need to introduce IA and FMC systems at the local level.  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>
<b>3. Coordination of continuous professional development</b>				
3. Coordination of continuous professional development	3.1	<p><b>Measure/activity:</b> 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  <b>Time frame:</b> <u>Continuously, starting from Q1 2019</u>  <b>Indicator:</b> At least two seminars annually  <b>Lead agency:</b> <u>MFin/CHU</u>  <b>Partner institution:</b> /</p>	Finalized	<p><b>Follow-up:</b> Through the Public Expenditure Management Peer Assisted Learning network (PEMPAL), the World Bank organized meetings of the Audit in Practice Working Group (AiP WG) and meetings of the Internal Control Working Group (IC WG) in Skopje (Macedonia) on April 2019, which were attended by CHU representatives. The World Bank also hosted meetings of the AiP WG and IC WG in the Russian Federation (Sochi) in October 2019. Topics discussed at the meetings included examples of good practice in the field of implementation of internal controls in the public sector, understanding, implementation and criteria for the assessment of the second and third components of the COSO framework. Also, one of the topics discussed concerned the establishment of a connection between the COSO framework principles and the Three Lines of Defence model, the adoption of guides for planning audit engagement, field work as a phase of audit engagement: expectations, challenges, methods and results, studying best practices in the reporting phase of the internal audit engagement process, gathering opinions on the development of the host country's IA, considering the role of internal audit in detecting fraud and corruption, presenting PEMPAL's internal audit manual on assessing the effectiveness of internal controls and agreeing on vocabulary and practical tools in the application of the COSO framework principles in terms of risk management and control activities.  Representatives of the MFin Department – Central Harmonization Unit participated in the 5th Regional Conference on Public Internal Financial Control for EU Member States and EU candidate countries in Skopje (Macedonia) organized by the Regional School of Public Administration - ReSPA in September 2019. The Regional Conference on Senior Civil Service and Managerial accountability was dedicated to the topic of managerial accountability in comparative practice in the countries of the Western Balkans. The conference was attended by representatives of the Directorate-General for Budget of the</p>

				European Commission, SIGMA, ReSPA, Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia.
<b>4. Development and implementation of IT support to PIFC</b>				
4. Development and implementation of IT support for PIFC	4.1	<b>Measure/activity:</b> Improvement of the e-learning platform to enhance exchange of knowledge in the area of financial management and control and internal audit. <b>Time frame:</b> <u>Q4 2020</u> <b>Indicator:</b> Posted improved training materials <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>TWINNING partner/UNDP/RELOF</u> <u>This activity does not apply to the reporting period</u>	Implemented before the deadline	<b>Follow-up:</b> An extensive set of guidelines (new and updated) were developed in 2019, finalized in the first quarter, and published in the second quarter of 2020, in cooperation with the Twinning partner. For additional information please refer to the status of implementation of the CAR recommendation for 2018 that concerns the enhancement of e-learning contents.
	4.2	<b>Measure/activity:</b> 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. <sup>56</sup> <b>Time frame:</b> <u>Q2 2020</u> <b>Indicator:</b> Report on the software upgrade, PV: 0; CV: 1 <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>SDC/UNDP</u>	Implemented before the deadline	<b>Follow-up:</b> At the end of 2019, the main technical and functional issues were resolved, and the software became operational. Instructions were developed and sent to the PFBs; a course was prepared to train PFBs in the use of the software in the first quarter of 2020 but was cancelled due to the coronavirus pandemic. The software was tested in the reporting system for 2019, and in the forthcoming period the plan is to enable its regular use. Half of all PFBs that submitted the reports for 2019 did so electronically.
<b>5. Monitoring and quality control of the Consolidated Annual Report</b>				
5. Monitoring and quality control of the Consolidated Annual Report	5.1	<b>Measure/activity:</b> Improve the contents and quality of the CHU Consolidated Annual Reports on PIFC submitted to the Government <b>Time frame:</b> <u>Q2 2020</u> <b>Indicator:</b> Consolidated Annual Report for 2019 <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>SIGMA</u> <u>TWINNING partner</u>	Implemented before the deadline	<b>Follow-up:</b> The report has been significantly improved, for more details please see the status of implementation of the recommendation
	5.2	<b>Measure/activity:</b> Improve the methodology for monitoring areas in which the Consolidated Annual Report on PIFC identified weaknesses <b>Time frame:</b> <u>Q2 2020</u> <b>Indicator:</b> Consolidated Annual Report for 2019 <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>SIGMA, TWINNING partner</u>	Implemented	<b>Follow-up:</b> 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.

<sup>56</sup> Envisaged in the Action Plan for the implementation of the Public Administration Reform Strategy 2018-2020, Activity 3.3.1



	5.3	<b>Measure/activity:</b> Determining a plan for the periodical review of internal control in PFBS <b>Time frame:</b> <u>Q1 2020</u> <b>Indicator:</b> Plan of periodic reviews of internal control in PFBS <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	The deadline did not expire in the reporting period	This activity does not refer to the reporting period
<b>6. Promote the importance of the Public Internal Financial Control reform</b>				
6. Promote the importance of PIFC reform	6.1	<b>Measure/activity:</b> Promote the importance of PIFC through relevant media channels <b>Time frame:</b> <u>Continuously, starting from Q1 2019</u> <b>Indicator:</b> Press clippings and promotional materials <b>Lead agency:</b> MFin/CHU <b>Partner institution:</b> <u>RELOF</u>	Implemented	<b>Follow-up:</b> Promotion of the importance of the PIFC reform through relevant media channels is a continuous activity, also envisaged in the Action Plan for 2019-2020. In 2019, significant work was done to promote the PIFC through the media, especially television. In this context, the CHU had the support of the RELOF 2 Project. A press briefing was hosted to better acquaint reporters with PIFC and contribute to improving reporting on these issues. After the briefing, statements were given to the media about the PIFC in Serbia. The Ministry of Finance was also involved in the Support to Public Administration Reform Visibility and Communication under the PAR Sector Reform Contract. Two events were organized in 2019, as part of the projects implemented by the CHU with the support of the UNDP. In July 2019, a <i>kick-off</i> meeting was held to mark the beginning of the Accountable Public Finance Management Platform project, funded by the SIDA and implemented by the UNDP. The project will support the CHU improve the status of internal auditors in the public sector and implementation of best EU practices in this area. At the end of October 2019, the closing conference of the project for the improvement of internal audit at local level, aimed at improving the efficiency of public finance management, funded by the SCD and implemented by the UNDP. The project was designed to strengthen and raise awareness of the need for introducing the IA and FMC system at local level. PIFC promotional activities are carried out through relevant media channels, including the CHU's web page on the Finance Ministry's website; training materials and other important documents are posted on the CHU's web page; promotional materials are available that contribute to raising awareness about the benefits of having an internal control system in place.
<b><i>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 objective 2, overview by operational objective)</i></b>				
<b><i>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</i></b>				

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	<b>Measure/activity:</b> 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 <b>Time frame:</b> Q1 2020 <b>Indicator:</b> Improved CHU questionnaires <b>Lead agency:</b> MFin/CHU <b>Partner institution:</b> /	Finalized before the deadline	<b>Follow-up:</b> At the beginning of 2019, the CHU updated the content and form of the Self-assessment Questionnaire.
	7.2	<b>Measure/activity:</b> 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 <b>Time frame:</b> Q2 2020 <b>Indicator:</b> Model for FMC practical application PV: 0 CV: 1 <b>Lead agency:</b> MFin/CHU <b>Partner institution:</b> /	The deadline does not expire in this reporting period	<b>Follow-up:</b> In 2019, the CHU intensified activities under the Twinning project on the preparation of as many as nine concrete FMC guidelines (of these, six methodological materials were prepared as part of the pilot exercise carried out under the Twinning project). All materials were finalized in the first half of 2020.
	7.3	<b>Measure/activity:</b> Organize workshops and seminars for senior executives at central and local level on the role of the FMC system <b>Time frame:</b> Continuously, starting from Q1 2019 <b>Indicator:</b> At least two workshops annually PV: 0 CV: 4 <b>Lead agency:</b> MFin/CHU <b>Partner institution:</b> PFBs, SDC/UNDP, RELOF	Finalized	<b>Follow-up:</b> The importance of the PIFC is also reflected in the continuous raising of awareness on the importance and role of internal controls in the public sector. In addition to raising awareness, the executive staff should be further informed about and trained in the basics of the FMC system. In addition to basic trainings on the FMC system the CHU also provides various workshops and seminars for senior managers at central and local level about the role of the FMC system. Several such workshops were conducted in 2019, including a one-day training for executives on the establishment and development of the FMC system, managerial accountability and risk management, in the PUC Parking Service, in April, in the Treasury Administration in October, in the City Administration of the City of Belgrade in December, and in the Ministry of Public Administration and Local Self-Government in August of the same year.
	7.4	<b>Measure/activity:</b> 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 <b>Time frame:</b> Q4 2020 <b>Indicator:</b> Analysis finalized PV: yes CV: no <b>Lead agency:</b> MFin/CHU <b>Partner institution:</b> <u>TWINNING partner in part, applicable part of the Pilot project, RELOF</u>	Finalized before the deadline	<b>Follow-up:</b> The activity was implemented by the CHU as part of the FMC system quality review function in PFBs, which was fully established in 2019.

	7.5	<p><b>Measure/activity:</b> Amend the FMC Rulebook and Manual to align the managerial accountability term with good governance principles</p> <p><b>Time frame:</b> <u>Q2 2019</u></p> <p><b>Indicator:</b> Amended FMC Rulebook Manual</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> /</p>	Finalized	<p><b>Follow-up:</b> The FMC Rulebook entered into force on 26 December 2019. The new Rulebook aligned elements of the financial management and control system with amendments to the International Internal Control Standards (INTOSAI), which include the concept of the Internal Control-Integrated Framework, established by the Commission of Sponsoring Organizations of the National Commission on Fraudulent Financial Reporting- also known as the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. 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 have been updated, published, and posted on the Finance Ministry's website.</p>
	7.6	<p><b>Measure/activity:</b> Update and redesign all FMC training materials in line with amended FMC and IA regulations</p> <p><b>Time frame:</b> <u>Q4 2019</u></p> <p><b>Indicator:</b> Updated and redesigned training materials</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> RELOF</p>	Finalized	<p><b>Follow-up:</b> 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>
<b>8. Strategic planning linking the goals of the organization to the overall vision of the Government</b>				
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 of strategic and operational processes with emphasis on managerial accountability	8.1	<p><b>Measure/activity:</b> Adoption of the regulation stipulating the methodology for the development of medium-term (strategic) plans</p> <p><b>Time frame:</b> <u>Q1 2019</u></p> <p><b>Indicator:</b> Regulation adopted PV: no CV: yes</p> <p><b>Lead agency:</b> <u>MPALS</u></p> <p><b>Partner institution:</b> <u>PPS</u></p>	Finalized	<p><b>Follow-up:</b> The methodology of public policy management, public policy and regulatory impact analysis as well as the content of individual public policy documents were regulated with the enactment of the Law on the Planning System of the Republic of Serbia (RS Official Gazette No. 30/18). On 7 February 2019, at the proposal of the Public Policy Secretariat, the Government of Serbia adopted the Decree on the Methodology for the Development of Medium-Term Plans (RS Official Gazette No. 8/19 of 8 February 2019). The Decree on the methodology for the development of medium-term plans is applied by state administration bodies and participants in the planning system of the Republic of Serbia since 16 February 2019.</p>
<b>9. Operational planning linking operational objectives to demands for resources</b>				
9. Operational planning linking operational objectives to demands for resources	9.1	<p><b>Measure/activity:</b> 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><b>Time frame:</b> <u>Q3 2019</u></p> <p><b>Indicator:</b> Regulation enacted PV: no CV: yes</p> <p><b>Lead agency:</b> <u>MPALS</u></p>	Partially implemented, delayed	<p><b>Follow-up:</b> A proposal was drafted for the amendment of this bylaw with the participation of MPALS, PPS and CHU</p>

		<b>Partner institution:</b> /		
<b>10. Monitoring and reporting on objectives achieved in relation to the resources used</b>				
10. Monitoring and reporting on objectives achieved in relation to the resources used	10.1	<b>Measure/activity:</b> 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. <b>Time frame:</b> <u>Q3 2019</u> <b>Indicator:</b> Regulation enacted PV: no CV: yes <b>Lead agency:</b> <u>MPALS</u> <b>Partner institution:</b> /	Partially implemented, delayed	<b>Follow-up:</b> A proposal was drafted for the amendment of this bylaw with the participation of MPALS, PPS and CHU
<b>11. Development of risk management process at PFBs</b>				
11. Development of risk management process at PFBs	11.1	<b>Measure/activity:</b> Organize CHU seminars and workshops on the topic of risk management for PFBs, to promote good practices <b>Time frame:</b> Continuously, <u>from Q2 2019</u> <b>Indicator:</b> Workshops held PV: 0 CV: 4 <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	Finalized	<b>Follow-up:</b> In 2019, the CHU held several one-day trainings on risk management with the PFBs to promote good practices. The workshops were organized in cooperation with the Twinning partner.
<b>12. Development of a model for evaluating the quality of financial management and control (FMC)</b>				
12. Development of a model for evaluating the quality of financial management and control	12.1	<b>Measure/activity:</b> Introduce annual statement on internal control by the head of PFB <b>Time frame:</b> <u>Q2 2019</u> <b>Indicator:</b> Annual statement on internal control introduced PV: no CV: yes <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>Twinning partner</u>	Finalized	<b>Follow-up:</b> The statement on internal control was introduced with the adoption of the FMC Rulebook, which entered into force on 26 December 2019, and will become an integral part of the annual reports of PFBs (starting 1 January 2021). The statement confirms that the FMC system is aligned with international internal control standards.
	12.2	<b>Measure/activity:</b> Develop FMC quality assessment model <b>Time frame:</b> <u>Q4 2020</u> <b>Indicator:</b> Developed quality assessment models <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>Twinning partner</u>	Finalized before the deadline	<b>Follow-up:</b> 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	<p><b>Measure/activity:</b> Improve knowledge and skills of CHU staff in the field of quality assessment of the financial management and control system, through continuous professional training  <b>Time frame:</b> <u>Continuously, starting from Q2 2019</u>  <b>Indicator:</b> At least two trainings annually  <b>Lead agency:</b> <u>MFin/CHU</u>  <b>Partner institution:</b> <u>GIZ, UNDP</u></p>	Finalized	<p><b>Follow-up:</b> In 2019, a quality review of the financial management and control system was performed by the CHU staff in cooperation with the Twinning Partner and the German Organization for International Cooperation - 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.</p>
	12.4	<p><b>Measure/activity:</b> Introduce the irregularities management function in the financial management and control framework  <b>Time frame:</b> <u>Q4 2019</u>  <b>Indicator:</b> Prepared guidelines PV: no CV: yes  <b>Lead agency:</b> <u>MFin/CHU</u>  <b>Partner institution:</b> <u>Twinning partner</u></p>	Finalized	<p><b>Follow-up:</b> The FMC Rulebook introduced the concept of irregularity management (based on Article 2, paragraph 1, item 51e of the BSL).  A working version of the Guidelines for the Management of Irregularities was developed in the last quarter of 2019 and published in the first quarter of 2020.</p>
<b>13. Communicating accurate, relevant, and timely information concerning financial and operational performance inside and outside the organization</b>				
13. Communicating accurate, relevant and timely information concerning financial and operational performance inside and outside the organization	13.1	<p><b>Measure/activity:</b> 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  <b>Time frame:</b> <u>Q3 2019</u>  <b>Indicator:</b> Regulation adopted PV: no CV: yes  <b>Lead agency:</b> <u>MPALS</u>  <b>Partner institution:</b> /</p>	Partially implemented, delayed	<p><b>Follow-up:</b> A proposal was drafted for the amendment of the regulation, in cooperation with representatives of the MPALS, PPS and CHU</p>
<b>Improving internal audit in terms of professionalism and scope of activities, efficient utilization of available resources and development of the quality review system</b> (Strategic objective 3, the results are presented by operational objectives)				
<b>14. Development of professional skills of internal auditors</b>				
14. Development of professional skills of internal auditors	14.1	<p><b>Measure/activity:</b> Organize meetings to exchange experiences between internal auditors from the IPA beneficiary institutions, the Audit Authority Office of EU Funds and CHU  <b>Time frame:</b> <u>Once a year</u>  <b>Indicator:</b> Minutes from meetings  <b>Lead agency:</b> <u>MFin/CHU</u>  <b>Partner institution:</b> <u>Institutions of the IPA beneficiary, Government Audit Office of EU funds management, Twinning partner</u></p>	Finalized	<p><b>Follow-up:</b> A workshop was held to present the tools for IPA audit in cooperation with the Twinning partner.  Meetings were held with the IPA structure regarding the possibility of centralizing the audit for IPA funds.</p>

	14.2	<b>Measure/activity:</b> Define continuous professional development of internal auditors by a regulation <b>Time frame:</b> <u>Q1 2019</u> <b>Indicator:</b> By-law on professional development of internal auditors enacted PV: no CV: yes <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	Finalized	<b>Follow-up:</b> The Rulebook on Professional Development of Certified Internal Auditors in the Public Sector was enacted in March 2019, (RS Official Gazette No. 15/19).
	14.3	<b>Measure/activity:</b> Alignment of training materials needed for the implementation of the updated IA Manual <b>Time frame:</b> <u>Q1 2019</u> <b>Indicator:</b> 30 days following the update of the IA Manual <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	Partially implemented, delayed	<b>Follow-up:</b> 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 for postponing this activity to 2020, when the IA Manual was updated in cooperation with the UNDP. The training materials are currently being updated.
<b>15. Optimize the use of audit resources</b>				
15. Optimize the use of audit resources	15.1	<b>Measure/activity:</b> Develop a systemic approach to horizontal audits based on analyses of the complexity of the audit scope and available resources <b>Time frame:</b> <u>Q4 2019</u> <b>Indicator:</b> Developed guidelines <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>PFBs, Twinning partner (partially)</u>	Finalized	<b>Follow-up:</b> At the end of 2019, a working version of the Guidelines for conducting internal audit of the cross-sectoral programme – “horizontal audit” was drafted, and subsequently completed and published on the website of the CHU, Ministry of Finance in June 2020.
	15.2	<b>Measure/activity:</b> Organize workshops, pilot audits and experience sharing after performing audits, on performance audits and project audits <b>Time frame:</b> <u>Q4 2020</u> <b>Indicator:</b> Reports on organized events <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> <u>PFBs</u>	The deadline does not expire in the reporting period	This activity does not apply to the reporting period.
<b>16. Develop quality assessment model for internal auditors' performance</b>				
16. Develop quality assessment model for internal auditors' performance	16.1	<b>Measure/activity:</b> Regulate external quality assessment of PFB internal audit by enacting a bylaw <b>Time frame:</b> <u>Q4 2019</u> <b>Indicator:</b> The regulation on external quality assessment of internal audit enacted PV: no CV: yes <b>Lead agency:</b> <u>MFin/CHU</u> <b>Partner institution:</b> /	Partially implemented/delay	<b>Follow-up:</b> A working version of the draft Rulebook was prepared and activities are currently focusing on securing the financing model.

	16.2	<p><b>Measure/activity:</b> 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</p> <p><b>Time frame:</b> <u>Q4 2019</u></p> <p><b>Indicator:</b> quality assessment model for internal auditors' performance and IA quality assurance guidelines developed for the heads of internal audit units PV: 0 CV: 1</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> <u>Twinning partner</u></p>	Finalized	<p><b>Follow-up:</b> At the end of 2019, a working version of the model for internal quality assessment of the performance of IA units was drafted with the support of the Twinning partner, and completed and published on the website of the CHU, Ministry of Finance in June 2020.</p>
<p><b>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)</b></p>				
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><b>Measure/activity:</b> Develop guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units</p> <p><b>Time frame:</b> <u>Q1 2020</u></p> <p><b>Indicator:</b> Guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units developed PV: 0 CV: 1</p> <p><b>Lead agency:</b> <u>MFin/CHU</u></p> <p><b>Partner institution:</b> <u>PFBs, Twinning partner.</u></p>	Finalized	<p><b>Follow-up:</b> 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 website of the CHU, Ministry of Finance.</p>

<b>Monitoring strategy implementation</b>				
<b>18. Monitoring and reporting on the implementation of the PIFC Strategy and Action Plan</b>				
18. Monitoring and reporting on the implementation of the PIFC Strategy and Action Plan	18.1	<p><b>Measure/activity:</b> 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><b>Time frame:</b> <u>At least two meetings per year</u></p> <p><b>Indicator:</b> Reports from meetings PV: 0 CV: 4</p> <p><b>Lead agency:</b> <u>Working Group for PIFC and CHU</u></p> <p><b>Partner institution:</b> /</p>	Finalized	<p><b>Follow-up:</b> After the adoption of the Strategy, in June 2017, a Working Group for PIFC was established by decision of the Finance Minister. Its composition was changed by a 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 Action Plan. Professional and administrative-technical support to the activity of the WG is provided by CHU, Ministry of Finance. In 2019, the Working Group held two meetings and the members present at the meetings discussed the activities envisaged in the Action Plan implemented in 2018 and 2019, as well as those planned in the forthcoming period.</p>
	18.2	<p><b>Measure/activity:</b> 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><b>Time frame:</b> <u>At least two meetings a year</u></p> <p><b>Indicator:</b> Reports from meetings PV: 0 CV: 4</p> <p><b>Lead agency:</b> <u>Working Group for PIFC and CHU</u></p> <p><b>Partner institution:</b> /</p>	Finalized	Implemented continuously.



### Annex 3. Overview of average scores for each question, principle, and element of the COSO framework by category of PFB

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

1. CONTROL ENVIRONMENT													
	CENTRAL LEVEL								LOCAL LEVEL				IN TOTAL – ALL PFBs
	MINISTRIES with administrations	MSIs	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB- NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	
4.1. Is there a code of conduct at the level of institution?	4.52	5.00	4.44	4.53	4.79	4.34	4.88	<b>4.60</b>	4.84	3.18	4.19	<b>4.09</b>	<b>4.38</b>
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?	4.73	5.00	4.47	4.34	4.43	4.17	4.50	<b>4.40</b>	4.41	3.20	3.79	<b>3.80</b>	<b>4.15</b>
4.3. Is there a procedure in place for monitoring non-compliance with the code of conduct?	3.79	4.00	3.78	4.02	4.21	3.72	3.72	<b>3.91</b>	3.73	2.91	3.37	<b>3.34</b>	<b>3.67</b>
4.4. Are the measures taken in cases of violation of the code?	4.56	4.75	4.25	4.36	4.54	4.02	4.38	<b>4.35</b>	4.00	3.00	3.74	<b>3.60</b>	<b>4.03</b>
4.5. Are there rules in place which define potential conflicts of interest and actions to be taken for resolving these?	4.39	5.00	4.33	3.93	4.32	3.98	3.75	<b>3.99</b>	4.00	3.05	3.62	<b>3.57</b>	<b>3.81</b>
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?	4.25	5.00	4.31	4.20	4.71	4.47	4.49	<b>4.33</b>	3.95	3.27	4.37	<b>3.93</b>	<b>4.16</b>

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	4.00	4.31	3.68	4.50	4.23	4.24	<b>3.99</b>	4.13	3.60	4.05	<b>3.94</b>	<b>3.97</b>
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)	—	4.00	2.41	2.80	4.52	3.33	3.40	<b>3.08</b>	2.44	3.12	3.53	<b>3.16</b>	<b>3.11</b>
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)	2.17	4.67	2.38	2.87	4.55	3.30	3.52	<b>3.14</b>	2.40	3.01	3.53	<b>3.13</b>	<b>3.13</b>
4.10. Have you adopted the annual work programmes?	4.82	5.00	4.78	4.73	4.96	4.64	4.80	<b>4.76</b>	3.91	4.39	4.97	<b>4.49</b>	<b>4.65</b>
4.11. Is there a detailed description of the job, authorities, and responsibilities for every position?	4.82	4.50	4.81	4.79	4.93	4.96	4.89	<b>4.83</b>	4.70	4.71	4.86	<b>4.77</b>	<b>4.81</b>
4.12. Are the lines of authority and responsibility defined within the organizational structure?	4.61	4.00	4.75	4.60	4.89	4.81	4.68	<b>4.66</b>	4.58	4.22	4.60	<b>4.48</b>	<b>4.58</b>
4.13. Has the organization's management established and reviewed adequate reporting lines both within the organization and to other organizations?	4.45	4.75	4.47	3.95	4.39	4.34	4.21	<b>4.14</b>	3.79	3.92	3.90	<b>3.87</b>	<b>4.03</b>
4.14. Have you defined the mission and vision of the organization?	4.30	5.00	4.39	4.42	4.96	4.53	4.55	<b>4.48</b>	4.41	3.68	4.82	<b>4.37</b>	<b>4.43</b>
4.15. Have you defined and adopted the strategic goals?	4.36	4.75	4.33	4.26	4.57	4.51	4.33	<b>4.33</b>	4.39	3.59	4.71	<b>4.28</b>	<b>4.31</b>
4.16. Have you adopted an HR policy (strategy)?	4.33	3.00	4.64	4.04	4.07	3.91	4.56	<b>4.19</b>	4.42	2.61	3.78	<b>3.63</b>	<b>3.95</b>
4.17. Are the levels of required skills and competencies for each job specified?	4.88	5.00	4.86	4.80	4.89	4.94	4.90	<b>4.85</b>	4.73	4.30	4.83	<b>4.65</b>	<b>4.76</b>
4.18. Have you devised a general plan and enabled employee access to trainings that are in line with the organization's objectives?	4.38	4.50	4.06	4.13	4.39	4.04	4.29	<b>4.18</b>	3.68	3.43	3.51	<b>3.54</b>	<b>3.91</b>
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?	3.55	4.50	3.78	2.84	4.21	3.66	3.36	<b>3.22</b>	3.62	2.63	3.25	<b>3.18</b>	<b>3.20</b>
4.20. Do you regularly assess employees' competencies?	4.70	2.75	4.72	3.34	3.14	3.23	3.58	<b>3.55</b>	4.19	2.31	2.64	<b>3.01</b>	<b>3.32</b>
4.21. Are the job candidates' qualifications, knowledge and previous work experience checked?	4.91	4.00	4.75	4.21	4.39	4.49	4.45	<b>4.37</b>	4.59	3.78	3.92	<b>4.08</b>	<b>4.25</b>
4.22. Is there a system in place for regular performance appraisal of employees?	4.79	2.50	4.86	3.05	3.46	3.38	3.66	<b>3.46</b>	4.52	2.19	2.97	<b>3.20</b>	<b>3.35</b>

4.23. Do you motivate employees (rewards and punishments) in accordance with their performance / output?	4.24	2.75	4.50	3.28	4.07	3.94	3.56	<b>3.58</b>	2.83	2.84	3.72	<b>3.20</b>	<b>3.42</b>
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?	4.18	4.75	4.06	3.26	4.04	4.19	3.87	<b>3.64</b>	3.20	3.24	3.53	<b>3.35</b>	<b>3.52</b>
4.25. Is regular reporting on risk management, internal control, and internal audit mandatory within the organization?	3.97	5.00	4.33	3.26	4.07	3.96	3.87	<b>3.62</b>	3.69	3.19	3.65	<b>3.53</b>	<b>3.58</b>
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?	4.31	4.75	4.53	4.02	4.50	4.55	4.22	<b>4.19</b>	3.98	3.63	3.94	<b>3.86</b>	<b>4.05</b>
<b>AVERAGE SCORE</b>	<b>4.26</b>	<b>4.34</b>	<b>4.28</b>	<b>3.91</b>	<b>4.41</b>	<b>4.14</b>	<b>4.18</b>	<b>4.07</b>	<b>3.97</b>	<b>3.35</b>	<b>3.92</b>	<b>3.77</b>	<b>3.94</b>

<b>2. RISK MANAGEMENT</b>			
	<b>CENTRAL LEVEL</b>		<b>LOCAL LEVEL</b>

	MINISTRIES with administrations	MSIs	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	TOTAL – ALL PFBs
5.1. Have you adopted and defined the operational goals?	4.52	5.00	4.39	4.16	4.68	4.45	4.27	4.28	3.99	3.51	4.36	4.00	4.16
5.2. Is there a link between strategic and operational goals?	4.21	4.75	4.33	3.97	4.43	4.34	4.09	4.10	3.78	3.56	4.12	3.85	4.00
5.3. Do you set goals which are specific, measurable, attainable, realistic, and time-bound (SMART)?	4.67	4.50	4.19	3.76	4.50	4.26	4.02	3.99	3.87	3.55	4.04	3.85	3.93
5.4. Are the managers and employees made familiar with the organization's strategic and operational goals?	4.64	4.75	4.53	4.27	4.64	4.47	4.41	4.38	4.02	3.87	4.26	4.08	4.25
5.5. Are revenues and expenditures projected and planned in compliance with the set goals of the organization?	4.76	5.00	4.83	4.62	4.89	4.85	4.75	4.71	4.51	4.56	4.66	4.59	4.66
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?	4.18	5.00	4.28	3.62	4.46	4.49	4.33	3.98	3.75	3.80	4.27	3.98	3.98
5.7. Are the organization's objectives aligned with the appropriate laws and regulations?	4.73	5.00	4.81	4.47	4.89	4.85	4.66	4.61	4.48	4.45	4.67	4.55	4.58
5.8. Is the risk register regularly updated, in accordance with the needs of the organization?	3.79	4.75	3.22	2.60	3.64	3.13	3.28	2.98	2.76	2.50	3.28	2.90	2.94
5.9. Have you identified the risks related to key business processes?	4.33	4.75	3.57	3.13	4.36	3.79	3.92	3.54	3.80	2.83	3.97	3.59	3.56
5.10. Have the risks been identified in relation to the defined goals of the organization?	4.24	4.75	3.57	3.20	4.36	3.80	3.82	3.55	3.74	2.64	3.91	3.49	3.52
5.11. Have the risks been assessed?	4.15	5.00	3.56	3.27	4.04	3.64	3.70	3.52	3.22	2.63	3.97	3.36	3.45
5.12. Is there a practice/in place in place for regularly reporting to the management on risks?	3.91	4.50	3.75	3.04	3.89	3.62	3.69	3.39	3.19	3.02	3.44	3.24	3.33
5.13. Are strategic and operational risks reviewed at management meetings?	4.00	4.50	3.89	3.22	4.07	4.02	3.96	3.60	3.43	3.28	3.80	3.54	3.57

5.14. Do managers make decisions geared to the management of identified risks (response to risks – risk tolerance, avoidance, mitigation, allocation)?	4.06	4.75	3.83	3.21	4.21	3.72	3.81	<b>3.54</b>	3.31	3.19	3.68	<b>3.42</b>	<b>3.49</b>
5.15. Do the risks include the risks of fraud and corruption?	3.79	4.75	4.11	3.42	3.68	3.34	3.75	<b>3.58</b>	3.50	3.35	3.64	<b>3.51</b>	<b>3.55</b>
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)?	3.79	4.00	3.75	2.84	3.89	3.62	3.68	<b>3.27</b>	3.18	2.78	3.41	<b>3.16</b>	<b>3.22</b>
<b>AVERAGE SCORE</b>	<b>4.23</b>	<b>4.73</b>	<b>4.04</b>	<b>3.55</b>	<b>4.29</b>	<b>4.02</b>	<b>4.01</b>	<b>3.81</b>	<b>3.66</b>	<b>3.34</b>	<b>3.97</b>	<b>3.69</b>	<b>3.76</b>

<b>3. CONTROL ACTIVITIES</b>													
	<b>CENTRAL LEVEL</b>								<b>LOCAL LEVEL</b>				<b>TOTAL – ALL PFBs</b>
	MINISTRIES with administrations	MSI Os	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	<b>CENTRAL LEVEL – TOTAL</b>	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	<b>LOCAL – TOTAL</b>	
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?	4.48	4.50	4.19	3.92	4.07	4.09	4.30	<b>4.08</b>	4.21	3.48	4.21	<b>4.00</b>	<b>4.04</b>
6.2. Do the written procedures consider the risks relating to specific activities?	4.30	4.75	3.97	3.51	3.93	3.89	4.05	<b>3.77</b>	4.10	3.50	4.01	<b>3.89</b>	<b>3.82</b>
6.3. Do the procedures contain the descriptions of internal controls?	4.36	4.75	3.97	3.31	3.89	3.87	4.05	<b>3.67</b>	4.08	3.21	3.95	<b>3.77</b>	<b>3.71</b>
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)?	4.45	4.75	4.64	3.75	4.32	4.24	4.34	<b>4.06</b>	4.33	3.54	4.07	<b>3.99</b>	<b>4.03</b>

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)?	3.65	4.67	4.00	3.15	3.70	3.86	3.67	<b>3.43</b>	3.68	3.39	3.71	<b>3.60</b>	<b>3.50</b>
6.6. Are there procedures and rules in place to ensure information security?	4.45	5.00	4.47	4.16	4.56	4.49	4.33	<b>4.29</b>	4.08	3.85	4.10	<b>4.02</b>	<b>4.18</b>
6.7. Have you ensured that only authorized persons may access material, financial and other resources (data, records)?	4.61	5.00	4.69	4.48	4.75	4.79	4.69	<b>4.59</b>	4.42	4.18	4.34	<b>4.32</b>	<b>4.48</b>
6.8. Did the organization establish control mechanisms within the procedures regulating the processes of procurement, development, and maintenance of technological infrastructure?	4.03	4.50	4.14	3.27	4.56	4.11	3.83	<b>3.65</b>	3.50	3.27	3.51	<b>3.44</b>	<b>3.56</b>
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.)?	4.36	5.00	4.64	4.02	4.75	4.53	4.61	<b>4.30</b>	4.40	3.75	4.20	<b>4.13</b>	<b>4.23</b>
6.10. Does the organization conduct periodic reviews of control policies and procedures to ensure their continued relevance and improvement?	3.91	4.75	3.86	2.95	4.07	3.89	3.67	<b>3.38</b>	3.47	2.81	3.52	<b>3.30</b>	<b>3.35</b>
6.11. Are corrective actions being taken in the organization to eliminate identified weaknesses in the internal control system?	4.06	4.50	4.14	3.19	4.14	3.87	3.70	<b>3.54</b>	3.69	3.25	3.60	<b>3.52</b>	<b>3.53</b>
<b>AVERAGE SCORES</b>	<b>4.24</b>	<b>4.74</b>	<b>4.25</b>	<b>3.61</b>	<b>4.25</b>	<b>4.15</b>	<b>4.11</b>	<b>3.89</b>	<b>4.00</b>	<b>3.48</b>	<b>3.93</b>	<b>3.82</b>	<b>3.86</b>

<b>4. INFORMATION AND COMMUNICATION</b>			
	<b>CENTRAL LEVEL</b>		<b>LOCAL LEVEL</b>

	MINISTRIES with administrations	MSI Os	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	TOTAL – ALL PFBs
7.1. Did the management of the organization identify and clearly define the information needs of relevant persons?	4.15	4.75	4.43	3.85	4.43	4.32	4.24	4.07	3.96	3.62	3.93	3.85	3.98
7.2. Do the information and communication system enable monitoring of the realization of set goals and implementation of efficient work supervision in the organization?	4.42	4.75	4.51	4.05	4.46	4.47	4.42	4.25	3.98	3.76	4.02	3.93	4.11
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?	4.55	4.75	4.74	4.37	4.61	4.72	4.64	4.51	4.27	3.97	4.19	4.15	4.36
7.4. Are reports for management regularly prepared (revenues generated, execution of financial and other plans, available funds, liabilities, receivables...)?	4.73	5.00	4.71	4.66	4.89	4.81	4.82	4.73	4.71	4.49	4.62	4.61	4.68
7.5. Do the managers receive the information on available funds for the realization of activities within their scope of competence?	4.85	5.00	4.77	4.57	4.79	4.60	4.65	4.64	4.67	4.48	4.47	4.53	4.59
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)	2.70	5.00	2.47	4.44	4.65	4.24	4.69	4.38	3.49	4.20	4.63	4.29	4.34
7.7. Are transparency and timely disclosure of information to external stakeholders maintained in the organization (key documents published on the website, etc.)?	4.88	4.50	4.89	4.41	4.86	4.68	4.80	4.60	4.57	4.32	4.60	4.51	4.56
7.8. Does the leadership of the organization receive and review information from external sources concerning new trends or circumstances, etc., that	4.48	4.75	4.57	4.11	4.70	4.51	4.52	4.33	4.17	3.94	4.22	4.13	4.24

could significantly impact the achievement of the organization's goals?													
7.9. Are existing procedures and methods of external communication analysed?	4.09	4.00	4.17	3.76	4.11	4.13	4.11	<b>3.94</b>	3.52	3.36	3.69	<b>3.54</b>	<b>3.77</b>
<b>AVERAGE SCORE</b>	<b>4.32</b>	<b>4.72</b>	<b>4.36</b>	<b>4.25</b>	<b>4.61</b>	<b>4.50</b>	<b>4.54</b>	<b>4.38</b>	<b>4.15</b>	<b>4.02</b>	<b>4.26</b>	<b>4.17</b>	<b>4.29</b>

<b>5. MONITORING (SUPERVISION) AND EVALUATION</b>													
	<b>CENTRAL LEVEL</b>							<b>LOCAL LEVEL</b>				<b>TOTAL – ALL PFBs</b>	
	MINISTRIES with administrations	MSIs	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	<b>CENTRAL LEVEL – TOTAL</b>	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs		<b>LOCAL – TOTAL</b>
8.1. Has the top management implemented a monitoring and information system that enables them to get regular reports on the functioning of the financial management and control system for which they are accountable?	4.24	5.00	4.24	3.27	3.93	3.77	3.80	<b>3.60</b>	3.65	3.04	3.56	<b>3.43</b>	<b>3.53</b>
8.2. Is there a reporting structure enabling objectivity and independence of internal audit?	4.22	5.00	3.53	2.46	4.43	3.83	3.20	<b>3.05</b>	3.26	2.77	2.84	<b>2.94</b>	<b>3.00</b>
8.3. Is the achievement of the organization's objectives regularly monitored?	4.58	5.00	4.83	3.96	4.79	4.53	4.44	<b>4.26</b>	4.02	3.93	4.33	<b>4.12</b>	<b>4.20</b>
8.4. Are the causes of any deviations from the established goals of the organization analysed?	4.27	5.00	4.51	3.68	4.64	4.38	4.36	<b>4.04</b>	3.70	3.76	4.17	<b>3.91</b>	<b>3.99</b>
8.5. Does the manager accept and implement internal audit recommendations?	4.41	4.75	3.62	2.81	4.11	3.50	3.10	<b>3.17</b>	3.23	3.77	2.84	<b>3.23</b>	<b>3.20</b>
8.6. Are external audit recommendations implemented?	4.78	5.00	4.37	3.49	4.71	3.94	4.47	<b>3.95</b>	4.76	4.17	4.62	<b>4.53</b>	<b>4.20</b>
8.7. Is the implementation of recommendations issued by external and internal auditors monitored?	4.75	4.75	4.29	3.40	4.64	4.07	4.25	<b>3.86</b>	4.41	4.16	4.38	<b>4.32</b>	<b>4.05</b>
8.8. Are the internal and external audit reports available to the staff working in the areas covered by the reports?	4.69	4.75	4.37	3.34	4.64	4.00	3.97	<b>3.77</b>	4.54	3.92	4.39	<b>4.30</b>	<b>3.99</b>



8.9. Is there a procedure in place enabling staff to inform the management about identified weaknesses in the internal control system?	3.64	4.25	3.54	2.84	3.41	3.32	2.96	<b>3.05</b>	3.30	2.89	3.07	<b>3.08</b>	<b>3.06</b>
8.10. Is the realization of activities from the action plan for the establishment and development of financial management and control monitored?	3.66	4.50	3.33	2.44	3.39	3.05	3.17	<b>2.85</b>	3.76	2.40	3.48	<b>3.27</b>	<b>3.03</b>
8.11. Are any measures undertaken in case of failure to perform the activities referred to in the action plan?	3.21	4.00	2.96	2.29	3.07	2.33	2.83	<b>2.57</b>	3.26	2.13	2.96	<b>2.82</b>	<b>2.68</b>
8.12. Have you established an audit board, as an advisory body for the issues of internal control?	1.33	1.00	1.39	1.41	2.93	1.66	1.39	<b>1.50</b>	1.64	1.48	1.52	<b>1.54</b>	<b>1.52</b>
<b>AVERAGE SCORE</b>	<b>3.98</b>	<b>4.42</b>	<b>3.75</b>	<b>2.95</b>	<b>4.06</b>	<b>3.53</b>	<b>3.50</b>	<b>3.31</b>	<b>3.63</b>	<b>3.20</b>	<b>3.51</b>	<b>3.46</b>	<b>3.37</b>

**Table 2. Overview of average score by COSO framework principle for different PFB categories**

<b>1. CONTROL ENVIRONMENT</b>													
	<b>CENTRAL LEVEL</b>								<b>LOCAL LEVEL</b>			<b>TOTAL – ALL PFBs</b>	
	MINISTRIES with administrations	MSIs	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	<b>CENTRAL LEVEL – TOTAL</b>	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs		<b>LOCAL – TOTAL</b>
1. The organization demonstrates integrity and ethical values	4.38	4.68	4.27	4.15	4.50	4.13	4.28	4.22	4.15	3.17	3.88	3.75	4.02
2. The supervisory body demonstrates independence relative to the management and exercises oversight of the internal control system	2.20	4.33	2.39	2.83	4.54	3.31	3.46	3.11	2.42	3.06	3.53	3.14	3.12
3. The management has established an adequate organizational structure, reporting lines and appropriate authorities and responsibilities in the achievement of goals	4.53	4.65	4.63	4.27	4.65	4.54	4.49	4.40	4.13	4.08	4.40	4.23	4.33
4. The organization demonstrates commitment to the development of human resources	4.46	3.96	4.47	3.89	4.18	4.05	4.19	4.06	4.21	3.18	3.66	3.68	3.90

5. The organization has established a system of individual accountability of staff for the performance of internal control tasks assigned to them	4.38	3.69	4.49	3.40	4.02	4.02	3.83	3.72	3.63	2.98	3.54	3.40	3.59
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2. RISK MANAGEMENT													
	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with administrations	MSOs	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	
6. The organization defines clear goals enabling the identification and assessment of related risks	4.53	4.86	4.48	4.12	4.64	4.53	4.36	4.29	4.06	3.90	4.34	4.13	4.22
7. The organization identifies and analyses the risks associated with the achievement of set goals across the entire organization, as a basis for risk management	4.07	4.71	3.63	3.10	4.08	3.67	3.74	3.44	3.35	2.87	3.72	3.36	3.41
8. The organization considers the risk of fraud	3.79	4.75	4.11	3.42	3.68	3.34	3.75	3.58	3.50	3.35	3.64	3.51	3.55
9. The organization identifies and assesses changes that may significantly affect the internal control system	3.79	4.00	3.75	2.84	3.89	3.62	3.68	3.27	3.18	2.78	3.41	3.16	3.22

3. CONTROL ACTIVITIES													
	CENTRAL LEVEL								LOCAL LEVEL				

	MINISTRIES with administrations	MSI Os	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	TOTAL – ALL PFBs
10. The organization selects and develops control activities that contribute to reducing the risk to an acceptable level	4.33	4.77	4.28	3.75	4.17	4.18	4.20	3.99	4.13	3.59	4.06	3.94	3.97
11. The organization selects and develops control activities related to technology (technological (IT) infrastructure) that support the achievement of goals	4.20	4.75	4.39	3.64	4.65	4.32	4.22	3.97	3.95	3.51	3.86	3.78	3.89
12. The organization implements control activities through policies that define the expectations and procedures that are in the function of implementing those policies	3.98	4.63	4.00	3.07	4.11	3.88	3.68	3.46	3.58	3.03	3.56	3.41	3.44

4. INFORMATION AND COMMUNICATION													
	CENTRAL LEVEL							LOCAL LEVEL				TOTAL – ALL PFBs	
	MINISTRIES with administrations	MSI Os	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	TOTAL – ALL PFBs

			ation s)										
13. The organization obtains and uses relevant and reliable information that supports the functioning of the internal control system	4.37	4.75	4.56	4.09	4.50	4.50	4.43	4.28	4.07	3.79	4.05	3.98	4.15
14. The organization internally communicates information, goals, and duties/responsibilities in the process of internal control, to support its functioning	4.09	5.00	3.99	4.56	4.78	4.55	4.72	4.58	4.29	4.39	4.57	4.48	4.54
15. The organization communicates externally regarding issues that affect the functioning of internal control	4.48	4.42	4.54	4.10	4.56	4.44	4.48	4.29	4.09	3.87	4.17	4.06	4.19

### 5. MONITORING (SUPERVISION) AND EVALUATION

	CENTRAL LEVEL								LOCAL LEVEL				TOTAL – ALL PFBs
	MINISTRIES with administrations	MSI Os	Other DBBs (except ministries and their administrations)	IDBs	PEs	Other PFBs (excluding PEs)	Users of NHIF funds	CENTRAL LEVEL – TOTAL	DBBs– SUB-NATIONAL BODIES AND SERVICES (AP and LGU)	IBBs	OTHER PFBs	LOCAL – TOTAL	
16. The organization selects, develops, and performs continuous and/or individual evaluations to assess the level of functioning of all internal control components	4.33	5.00	4.28	3.34	4.45	4.13	3.95	3.74	3.66	3.37	3.72	3.60	3.68
17. The organization assesses and promptly communicates any weaknesses identified in the internal control system to the persons responsible for taking corrective action, including top	3.81	4.13	3.48	2.75	3.86	3.23	3.27	3.09	3.61	3.11	3.41	3.39	3.22



## 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 2019**

	PFBs	Reports submitted	Normatively established IA	Functionally established IA	Systematized jobs	Filled positions
Central/ Republic level	Ministries (with administrations)	23	20 <sup>57</sup>	20	93	64
	MSIOs	4	4	4	36	33
	Other direct budget beneficiaries (DBBs)	29	18	17	47	31
	Indirect budget beneficiaries (IBBs) <sup>58</sup>	126	15	9	11	10
	Public enterprises at central level	31	25	21	112	86
	Other PFBs	31	28	20	51	44
	Beneficiaries of NHIF funds	59	38	22	66	43
	<b>Total</b>	<b>303</b>	<b>148</b>	<b>113</b>	<b>416</b>	<b>311</b>

Internal audit is normatively and functionally established in all 4 mandatory social insurance organizations (MSIOs), 36 internal auditor jobs are systematized and 33 are filled. Of the remaining public funds beneficiary institutions at the central level, in 124 the IA function is normatively established and in 89 functionally, 287 internal auditor positions have been systematized and 214 filled.

Based on the data on public funds beneficiary institutions at the central level (excluding indirect budget beneficiaries and beneficiaries of NHIF funds)<sup>59</sup> we can see that there has been a 13% increase in the number of normatively established audits, a 9% increase in the number of systematized jobs but also a 1% decrease in the number of filled internal auditor positions in 2019 relative to 2018. This decline was mainly due to the restriction on employment, which is still in force, as well as the natural attrition rate of internal auditors.

<sup>57</sup> 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).

<sup>58</sup> 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, para. 3 of the IA Rulebook.

<sup>59</sup> Due to the introduction of the new categorization of PFBs for data presentation purposes, which is different relative to the one in the CAR of 2018..

## MINISTRIES

All 18 ministries have normatively established an internal audit function. In 17 ministries, according to the annual reports submitted by them, 61 positions were systematized, and 43 internal auditor positions are filled.

**Table 2. Internal audit function, by ministry, in 2019**

Name of ministry	Normative IA	Functional IA	Number of auditors	Ministry has IBBs
Ministry of Youth and Sport	Yes (non-compliant with the IA Rulebook)	Yes <sup>60</sup>	0	No
Ministry of the Environment	Yes (n/a) <sup>61</sup>	No	0	No <sup>62</sup>
Ministry of Foreign Affairs	Yes	No	0	No
Ministry of European Integration	Yes	Yes	1	No
Ministry of Mining and Energy	Yes (non-compliant with the IA Rulebook)	Yes	1	No
Ministry of Economy	Yes	Yes	1	Yes
Ministry of Trade, Tourism and Telecommunications	Yes	Yes	2	No
Ministry of Agriculture, Forestry and Water Management	Yes	Yes	2	No
Ministry of Labour, Employment, Veteran and Social Affairs	Yes	Yes	2	No
Ministry of Construction, Traffic and Infrastructure	Yes	Yes	2	No
Ministry of Public Administration and Local Self-Government	Yes	Yes	2	No
Ministry of Health	Yes	Yes	3	n/a

<sup>60</sup> In the Ministry of Youth and Sport, internal audit tasks are discharged by a person engaged under a temporary and occasional services agreement.

<sup>61</sup> The Ministry of the Environment failed to submit its annual report. This information was retrieved from the Ministry's Activity Report (of August 2020), however, it was not possible to see whether the IA was established pursuant to the IA Rulebook.

<sup>62</sup> The ministry has no IBBs within its purview.

<b>Ministry of Education, Science and Technological Development</b>	<b>Yes</b>	<b>Yes</b>	<b>3</b>	<b>Yes</b>
<b>Ministry of Finance</b>	<b>Yes</b>	<b>Yes</b>	<b>4</b>	<b>No</b>
<b>Ministry of Defence</b>	<b>Yes</b>	<b>Yes</b>	<b>4</b>	<b>Yes</b>
<b>Ministry of Justice</b>	<b>Yes</b>	<b>Yes</b>	<b>4</b>	<b>Yes</b>
<b>Ministry of Culture and Information</b>	<b>Yes</b>	<b>Yes</b>	<b>4</b>	<b>Yes</b>
<b>Ministry of Internal Affairs</b>	<b>Yes</b>	<b>Yes</b>	<b>8</b>	<b>Yes</b>

As shown in Table 2, in the two ministries, specifically the Ministry of Youth and Sports and the Ministry of Mining and Energy, the normatively established internal audit function is not compliant with the IA Rulebook which requires ministries to have an internal audit unit with at least three internal auditors. The Ministry of Mining and Energy reduced the number of systematized jobs from the mandatory three to one internal auditor in 2019. On the other hand, the Ministry of Environmental Protection did not submit its Annual Report for 2019, so we could not assess whether the systematized jobs are in accordance with the IA Rulebook.

As for the functional IA, i.e. an internal audit that produced at least one audit report in the reporting period, it was established in 16 ministries. In 11 ministries, the internal audit unit does not employ a 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 ministries' category.



## LOCAL GOVERNMENT LEVEL

**Table 3. Total number of internal audits in place, systematized and filled internal auditor positions at PFBs at the local government level in 2019**

	PFB	Reports submitted	Normative IA	Functional IA	Systematized positions	Filled positions
Local level	Direct budget beneficiaries of LGUs	77	59	39	126	96
	Indirect budget beneficiaries of LGUs <sup>63</sup>	18	1	0	0	0
	Other public funds beneficiaries (PUCs and similar) founded by the local government	77	55	35	90	78
	<b>Total</b>	<b>172</b>	<b>115</b>	<b>74</b>	<b>216</b>	<b>174</b>

According to the 77 reports received from the Autonomous Province of Vojvodina, the City of Belgrade, towns and municipalities, 59 direct budget beneficiaries of local government units normatively established internal audit. Thirty-nine direct budget beneficiaries of local government units functionally established the internal audit function by producing at least one audit report in the reporting period. These PFBs systematized a total of 126 positions for internal auditors, of which 96 are filled.

Data presented on the number of PFBs at the local government level (without indirect budget beneficiaries)<sup>64</sup>, reveal a 7% increase in the number of normatively established audits, a 6% increase in the number of systematized positions and a 7% increase in filled internal auditor positions in 2019 relative to 2018.

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, seven out of 28 cities failed to submit their annual reports for 2019. Out of those that sent their annual reports, ten cities failed to normatively establish an 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 did not fill the minimum required three internal auditor positions in the internal audit unit.

<sup>63</sup> Only shows the number of indirect budget beneficiaries at the local government level that independently established the internal audit function and not all other indirect budget beneficiaries (IBBs) in which the internal audit function is performed by the direct budget beneficiary (DBB) responsible for these IBBs pursuant to Article 6, para. 2 and 4 of the IA Rulebook.

<sup>64</sup> Due to the introduction of the new categorization of PFBs for data presentation purposes, which is different relative to the one in the CAR of 2018.

**Table 4. Internal audit function in key PFBs at local level in 2019**

PFB Name	Normative IA	Functional IA	Number of auditors	The PFB includes IBBs
AP Vojvodina	Yes	Yes	6	Yes
City of Belgrade	Yes	Yes	21	Yes
Novi Sad	Yes	Yes	5	Yes
Niš	Yes	Yes	2	Yes
Subotica	Yes (n/a) <sup>65</sup>	Yes	2	Yes
Kragujevac	Yes	Yes	5	Yes
Novi Pazar	Yes	Yes	5	-
Kruševac	Yes (non-compliant with the IA Rulebook)	Yes	1	Yes
Vranje	Yes (Non-compliant with the IA Rulebook)	Yes	1	Yes
Kikinda	Yes (Non-compliant with the IA Rulebook)	No	1	Yes
Pančevo	Yes (Non-compliant with the IA Rulebook)	Yes	1	Yes
Sremska Mitrovica	No	No	0	-
Loznica	Yes (Non-compliant with the IA Rulebook)	Yes	1	Yes
Pirot	Yes (Non-compliant with the IA Rulebook)	Yes	1	Yes
Požarevac	Yes	Yes	1	Yes
Prokuplje	Yes (Non-compliant with the IA Rulebook)	Yes	2	Yes
Jagodina	No	No	0	-
Užice	Yes	Yes	5	Yes
Zrenjanin	Yes	Yes	3	Yes
Bor	Yes (Non-compliant with the IA Rulebook)	No	0	-
Valjevo	YES (Non-compliant with the IA Rulebook)	Yes	2	Yes
Smederevo	YES (Non-compliant with the IA Rulebook)	Yes	1	Yes
Čačak		N/A <sup>66</sup>		
Leskovac				

<sup>65</sup> The annual report of the City of Subotica is missing information on the number of systematized jobs, which is why it is not stated whether the IA function was set up in accordance with the IA Rulebook.

<sup>66</sup> The cities listed herein did not submit their annual reports for 2019.

Šabac
Zaječar
Vršac
Kraljevo
Sombor

## NUMBER OF AUDITORS IN PFBs

Table 5 shows the total number of public funds beneficiaries, at the level of the entire public sector, who have a functionally established IA function and at least one filled internal auditor position, which amounts to 168 PFBs.<sup>67</sup> Of this number, public funds beneficiaries who have established the IA function with one internal auditor position filled account for a 62% share, those with two internal auditor positions filled – 15% share, and those with three or more internal auditors – 23%.

**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 administrations)	3	5	11
	MSIOs	0	0	3
	Other direct budget beneficiaries	8	1	2
	Indirect budget beneficiaries	7	0	0
	Public enterprises at central level	8	6	7
	Other PFBs	15	2	1
	Beneficiaries of NHIF funds	15	2	1
	<b>Total</b>	<b>56</b>	<b>16</b>	<b>25</b>
Local level	Direct budget beneficiaries of LSGs	28	4	7
	Indirect budget beneficiaries of LSGs	0	0	0
	Other PFBs (PUCs and similar) founded by the local government	20	6	6
	<b>Total</b>	<b>48</b>	<b>10</b>	<b>13</b>
<b>Total in Serbia</b>		<b>104</b>	<b>26</b>	<b>38</b>
<b>Total PFBs with filled internal auditor positions</b>			<b>168</b>	

<sup>67</sup>187 PFBs have a functional IA. When, from this number, we subtract the number of PFBs in which other PFBs are performing internal audits under an agreement and the number of PFBs that outsourced an internal audit function under a service agreement, we get 168 PFBs.

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

(header of the public funds beneficiary)

# ANNUAL REPORT ON AUDIT AND INTERNAL AUDIT ACTIVITIES

for 2019

### GENERAL SECTION

<b>1. GENERAL INFORMATION ON THE PUBLIC FUNDS BENEFICIARY:</b>	
Manager of PFB (job title, name and surname):	
Name of the internal audit unit / Name and surname of internal auditor <sup>68</sup> :	
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:	
<b>2. INFORMATION ON THE INTERNAL AUDIT UNIT AND INTERNAL AUDITORS</b>	
2.1. Internal audit is normatively established <sup>69</sup> :	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.2. If YES, state the name, number and date of the internal act:	
2.3. Is the setting up of internal audit in progress?	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.4. Specify the number of participants in the training for acquiring the professional title of authorized internal auditor in the public: <sup>70</sup> - theoretical - theoretical and practical	
2.5. The following type of internal audit is in place: 1) <input type="checkbox"/> independent internal audit unit 2) <input type="checkbox"/> internal auditor 3) <input type="checkbox"/> joint internal audit unit for several PFBs 4) <input type="checkbox"/> agreement with another PFB on delivery of internal audit services. In case an agreement has been signed with another PFB on delivery of internal audit services, please state the PFB's name, as well as the number and date of the agreement:	
2.6. Does the internal audit unit/internal auditor organizationally and functionally directly and exclusively report to the PFB manager?	Yes <input type="checkbox"/> No <input type="checkbox"/>
2.7. If NO, state the reasons why and to whom it reports:	
2.8. If the PFB is a direct budget beneficiary responsible for indirect budget beneficiaries, does the internal audit unit, in accordance with its work plan, discharge the internal audit function in the indirect budget beneficiaries under its responsibility, prescribed in Art. 5, paras. 3 and 4,	Yes <input type="checkbox"/> No <input type="checkbox"/>

<sup>68</sup> Only if the internal audit unit is not in place.

<sup>69</sup> For multiple choice questions, please select a single answer by checking the appropriate box

<sup>70</sup> Including participants that started the training before the reporting period that are still ongoing.

and Art. 6, paras. 2 and 4 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)? <sup>71</sup>				
2.9. If NO, state the reason:				
2.10. Has the head of the internal audit unit been appointed?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.11. 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"/>
2.12. Staffing and pay grades for the internal audit unit/internal auditor positions (enter in numerical format):				
Job title/post	Systematized (i.e. envisaged in the staffing plan)	Filled	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 public sector internal auditors <sup>72</sup> , for all employees in internal audit in the reporting period.				
2.13. Is performing internal audits the only task of internal audit?				Yes <input type="checkbox"/> No <input type="checkbox"/>
2.14. If NO, please specify which other tasks are performed by the IA and state the reason:				
2.15. 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"/>
2.16. If NO, state the reason:				
<b>3. COMPLIANCE WITH INTERNAL AUDIT STANDARDS AND METHODOLOGIES</b>				
<b>Compliance with the Manual for Internal Auditors</b>				
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:				
<b>Internal Auditors' Charter</b>				

<sup>71</sup> To be completed only by direct budget beneficiaries that are responsible for indirect budget beneficiaries.

<sup>72</sup> 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).

3.6. Did the PFB manager and the head of IA unit 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.	
3.8. If NO, state the reason:	
<b>Compliance with internal audit standards and the Internal Audit Code of Ethics</b>	
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 an 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?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.13. If NO, state the reason and cases of non-compliance:	
<b>Performance of an internal audit</b>	
3.14. Was the internal audit strategic plan developed based on a risk assessment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.15. If NO, state the reason:	
3.16. 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"/>
3.17. If NO, state the reason:	
3.18. Is the internal audit strategic plan available to all employees and executives (forwarded personally, published in the internal bulletin, on the intranet, or website of the organization)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.19. Is the annual internal audit plan developed based on the internal audit strategic plan? <sup>73</sup>	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.20. If NO, state the reason:	
3.21. 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"/>
3.22. If NO, state the reason:	
3.23. Is the annual internal audit plan available to all employees and executives (forwarded personally, published in the internal bulletin, on the intranet, or website of the organization)?	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Execution of the annual internal audit plan<sup>74</sup></b>	
3.24. Total number of planned audits according to the annual plan:	
3.25. Total number of audits planned subsequently ("on demand"):	
3.26. Total number of audits performed for which a final audit report was drawn up:	
3.27. Percentage of planned auditor days for delivering consulting services relative to the total number of planned auditor days according to the annual plan:	
3.28. Total number of consulting services provided for which reports were drawn up:	
3.29. Reasons for failure to implement the planned number of audit engagements (state the reasons):	
3.30. Are the audit reports and consulting services reports regularly submitted to the PFB manager?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.31. Does the responsible person in the audited entity complete and decide on the recommendations follow-up plan which lists the accepted recommendations and actions to be taken, persons responsible for implementing the recommendations and deadlines?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.32. If NO, state the reason:	
3.33. Does the internal audit unit/internal auditor keep records of the recommendations made in the audit reports along with data necessary for monitoring follow up?	Yes <input type="checkbox"/> No <input type="checkbox"/>

<sup>73</sup> This refers to the annual plan adopted for the year that comes after the year to which this annual report refers.

<sup>74</sup> This refers to the year for which this report is submitted.

3.34. If NO, state the reason:	
3.35. The number of follow-up audits performed, out of the total number planned:	
<b>The number of recommendations made, and number of recommendations implemented in the reporting period</b>	
3.36. Number of recommendations made in audit reports:	
3.37. Number of audit recommendations not accepted:	
3.38. Number of implemented recommendations:	
3.39. Number of partially implemented recommendations:	
3.40. Number of recommendations not implemented past the implementation deadline:	
3.41. Number of recommendations not implemented whose implementation deadline has not yet expired:	
3.42. If there are any recommendations that were not implemented past the deadline, state the reason:	
<b>Audit committee</b>	
3.43. Has an audit committee been established as an advisory body on internal audit issues?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.44. Is the audit committee composed of independent members, with appropriate professional qualifications?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3.45. 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"/>
3.46. 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"/>
3.47. Specify the terms of reference of the audit committee:	
<b>Continuous professional development of certified internal auditors<sup>75</sup></b>	
3.48. 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"/>
<b>Assessment of the performance of the internal audit unit:<sup>76</sup></b>	
3.49. 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"/>
3.50. Does the head of internal audit carry out internal reviews (continuous reviews and period self-assessments) pursuant to Art. 19, para. 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"/>
3.51. If NO, state the reason:	
3.52. 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"/>
<b>Overview of audits and consulting services performed</b>	
An overview of audits and consulting services performed should be presented in the <b>SPECIAL SECTION</b>	
<b>4. PROPOSALS FOR INTERNAL AUDIT DEVELOPMENT</b>	
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):	

<sup>75</sup> To be completed by PFBs that have certified public internal auditors on their staff.

<sup>76</sup> To be completed by PFBs what have an internal audit unit in place.

**REMARKS:**

**5. Internal audit opinion on the status of financial management and control in the PFB**

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

Address of the public fund beneficiary:

\_\_\_\_\_  
(signature of the head of the internal audit/internal auditor)<sup>77</sup>

\_\_\_\_\_  
(signature of the manager of the public funds beneficiary and stamp)<sup>7</sup>

<sup>77</sup> Do not fill our in electronic form



**SPECIAL SECTION**

<b>1. OVERVIEW OF AUDITS PERFORMED<sup>78</sup></b>									
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 <sup>79</sup> :									
	1	2	3	4	5	6	7	8	Total
Recommendations <sup>80</sup>									
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:									

<sup>78</sup> Table 2 can be copy-pasted, as needed, to include all audits performed.

<sup>79</sup> 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.**

<sup>80</sup> 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**<sup>81</sup>

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:

<sup>81</sup> 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:

<b>5. LIST OF INTERNAL AUDIT STAFF</b> <b>(new table cells can be added if necessary)<sup>82</sup></b>				
<b>No.</b>	<b>Name</b>	<b>Surname</b>	<b>Job title</b>	<b>Number of certificates of certified public sector internal auditors</b>
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				

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<sup>82</sup> Add new rows to Table 5 according to needs, i.e. the number of internal audit employees.