

**REPUBLIC OF SERBIA**

**MINISTRY OF FINANCE**

* **Central Harmonisation Unit -**

**CONSOLIDATED ANNUAL REPORT ON**

**THE STATUS OF PUBLIC INTERNAL FINANCIAL CONTROL IN**

**THE REPUBLIC OF SERBIA IN 2022**

**Belgrade**, **October 2023**

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# List of Abbreviations

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

**AP K&M** – Autonomous Province of Kosovo and Metohija

**APV** –Autonomous Province of Vojvodina

**BBs** – Budget Beneficiaries

**BSL** – Budget System Law

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

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

**CHU -** Central Harmonisation Unit

**CIA** – Certified Internal Auditor(s)

**COSO** – Committee of Sponsoring Organisations of the Treadway

Commission

**DBB**s – Direct Budget Beneficiaries

**EC –** European Commission

**EU** - European Union

**FMC** - Financial Management and Control

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

**FMC Report** - Annual Report on Financial Management and Control System

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

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

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

**HRMS** - Human Resources Management Service

**IA** – Internal Audit

**IA Report** – Annual Report on Audits and IA Activities

**IA Rulebook** – Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector

**IBBs** – Indirect Budget Beneficiaries

**IIA –** Institute of Internal Auditors (*IIA*)

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

**IPA** – Instrument for Pre-Accession Assistance

**ISO** – International Organisation for Standardisation *(ISO)*

**IT** – Information technologies

**IUPD** – Internal unit for planning documents and management support

**LPS** – Law on Planning System

**LSGs** – Local Self-Governments

**MAFWM** – Ministry of Agriculture, Forestry and Water Management

**MSIOs** – Mandatory Social Insurance Organisations

**MoI** - Ministry of the Interior

**MoF** – Ministry of Finance

**MPALG** – Ministry of Public Administration and Local Self-Government

**NAPA** – National Academy of Public Administration

**NEA** – National Employment Agency

**SAI** – State Audit Institution

**PAR** - Public Administration Reform

**PAR Strategy** - Public Administration Reform Strategy

**PEs** – Public Enterprises

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

**PIFC** – Public Internal Financial Control *(PIFC)*

**PPS** - Public Policy Secretariat of the Republic of Serbia

**PUC** – Public Utility Company

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

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

**RHIF** - Republic Health Insurance Fund **RS** - Republic of Serbia

**RSL** - Republic Secretariat for Legislation

**SECO** –The Swiss State Secretariat for Economic Affairs *(SECO)*

**SCTM** - Standing Conference of Towns and Municipalities

**SIDA** –*The*Swedish*International Development Cooperation Agency*

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

**SIFMP** – Social Insurance Fund for Military Personnel

**UNDP** – *United Nations Development Programme (UNDP)*

**WG** – Working Group

# SUMMARY

The Consolidated Annual Report on the Status of Internal Financial Control in the Public Sector in the Republic of Serbia is submitted to the Government every year by the Minister of Finance on the basis of Article 83 of the Budget System Law[[1]](#footnote-1). This Law provides that the Central Harmonisation Unit, as an organisational unit within the Ministry of Finance of the Republic of Serbia, shall prepare the report in question by combining the individual annual reports on financial management and the control system, i.e. the annual reports on audits conducted and internal audit activities submitted by public funds beneficiaries.

The purpose of the CAR is to publish the information collected on the activities carried out by PFBs and the results obtained in the implementation and development of the FMC system and the IA function. The aim is to highlight the positive sides and possible shortcomings of the system and to provide recommendations for its further development and improvement.

The CAR also contains information on the follow-up of the recommendations presented in the Serbian Annual Progress Reports of the EC in the EU accession process and the results achieved, as well as on the follow-up of the recommendations presented in the CAR for the previous year.

Annual Reports on the Status of the FMC system and the Functioning of IR are submitted to the CHU through a reporting application that is fully functional and has been further enhanced by the introduction of the option to sign documents electronically. The FMC Report for 2022 was submitted by 3416 PFBs, which is another increase from last year.

The FMC report form for 2022 has been improved, the structure and the way of filling in the questionnaire have been changed, allowing users to more clearly assess the application of the principles of the COSO framework in their organisation and to identify the weaknesses of their FMC systems.

Based on the data analysed from CAR, it can be concluded that the main public sector institutions of RS have submitted the FMC report in most cases. The high volume of the reports provides a basis for relevant conclusions about the status of the FMC system in the public sector of RS.

The analysis of the annual reports included the elements of the organisational set-up of the FMC system and the results of the PFBs' self-assessment in the area of application of the COSO principle. Within the PFBs group, which reports regularly, the observed trends in the development of the aforementioned parameters were assessed.

The Statement on Internal Controls was also an integral part of the FMC report in this cycle and reporting on the management of irregularities by the PFBs continued.

In this report, the issue of organisational set-up of the FMC system at priority PFBs is analysed in more detail, focusing on business process maps, risk management strategy and risk register.

Progress has been made on all indicators of FMC system maturity. The analysis of results by level and category of PFBs still shows that most PFBs at the central level have better results than at the local level in most cases. The group of priority PFBs, almost by all criteria, consistently shows the best results, and specifically MSIOs, compared to all other categories, they have better scores. The analysis of the responses of PFBs that report regularly also shows continuous progress, which actually shows how the FMC system is slowly maturing within the organisation when it is regularly improved.

The data indicates that certain ministries, PEs and cities have not yet produced/adopted some of the above documents, so they need to address the identified deficiencies as soon as possible. Ministries, PEs and cities have a special responsibility in establishing and developing the FMC system, considering their budgets and overall capacities, i.e. their greater social importance and overall influence in the RS.

Ministries and cities are also expected to initiate and concretely support the process of FMC and IBBs system development in under their responsibility, as the group of PFBs just mentioned faces the greatest challenges in this area, mainly due to limited internal capacities.

PFBs rated the level of application of the COSO principle with an average of 3.79, suggesting that there is room for improvement. However, if we look only at the priority beneficiaries who rated the established system at 4.15, we can be satisfied with the rating, i.e. with the established system. There is room for further improvement and this will be verified/confirmed by reviewing the quality of the FMC system undertaken by CHU in the coming years.

As before, the status of the FMC system is viewed from the perspective of the COSO framework for internal controls. Key aspects of *the control environment* have been largely implemented (integrity and ethical values, mission and vision statements as essential prerequisites, efficient organisational structure as well as clear reporting lines). The control environment element is rated best by PFBs. Further improvements are needed in the part related to human resource management, especially when it comes to attracting and retaining high-quality staff.

Significant progress has been made in the area of *risk management*, but further efforts are needed to develop this segment. PFBs should strive to assess and manage risk in all parts of the organisation. Sound risk assessment is one of a series of steps that prevent/reduce the occurrence of irregularities. Inadequate management of risks, on the other hand, can jeopardize the achievement of an organisation's goals, most often resulting in only a partial and/or belated achievement thereof.

Of the five elements, the element of *control activities* is on average in third place, but when we look at the priority PFBs, this is the highest rated element, indicating that the priority PFBs are aware of the importance of control activities in their organisations. Of course, many things need to be taken into account in order to carry out control well and with high quality, but just recognising the importance of this element is an important step in the further development of the PIFC system.

Looking at all PFBs, *the information and communication* element was rated highest after the control environment element, indicating that PFBs understand the importance of communication, both internal and external.

*Monitoring (supervision) and evaluation* refer to the implementation of mechanisms to monitor the FMC system, i.e. assessing the adequacy and efficiency of its functioning. The average score of this element is the lowest and indicates that PFBs do not pay enough attention to the monitoring, i.e. supervision. Of course, we take the MSIOs out of this average, as with all elements, as its ratings for most principles are the highest.

The new methodology has also highlighted the need for regular improvement of various aspects of the FMC system. The improvements to the questionnaire in this and previous years have shown more clearly that FMC is perceived as a one-off activity. With the new questionnaire, the PFBs have more clearly indicated which parts of the system particularly need to be reviewed and updated/improved.

According to the PFBs management, who had experience with the recommendations of the IA and the external audit, a high level of consideration, acceptance, and implementation of the recommendations of internal and external auditors was observed. The recommendations are not only considered but also accepted and implemented in a timely manner. Internal and external audit are understood by the PFBs as important functions that provide support to management.

According to the data processed, a total of 1944 PFBs submitted the IA report for 2022. In 384 PFBs, IA is normatively implemented, and it is functional in 238. A functional IA is one that has conducted at least one audit engagement during the reporting period. For the year 2022, the form of the IA report has not changed fundamentally compared to last year.

According to the latest data from 2022, there is a positive trend in the development of the IA function in the public sector RS for almost all indicators. There has been an increase of 7% in the number of PFBs with a normatively established IA, while the increase in functionally established IA in 2022 compared to the previous year is 13%. Most of the central level institutions have established IA. The number of systematised posts for IA has increased by 9% and the number of internal auditors employed has increased by 4% in 2022 compared to 2021. However, in the category of ministries, there was a 4% decrease in the number of employed internal auditors compared to the previous year. Out of a total of 25 ministries, a functional IA unit has been established in 15, and only 7 employed at least three internal auditors. At the local self-government level, in the category of cities and municipalities, an 11% increase in the number of internal auditors employed was noted compared to the previous year. Cities are obliged to have a fully staffed IA unit, but 71% do not fulfil this obligation.

Despite efforts to recruit a certain number of new internal auditors, the inability to attract and retain qualified staff remains evident, resulting in an insufficient number of internal auditors. Furthermore, a further decrease in numbers due to natural attrition is to be expected, considering the age of the employed internal auditors. The high percentage of established IAs with less than three employees raises doubts as to whether the standards of IA can be fully met.

Looking at all categories of PFBs, insufficient support from part of Heads of PFBs in filling internal auditor positions, not implementing part of the recommendations of IA, performing other tasks not related to IA and enabling professional development of internal auditors can be seen as weaknesses.

Based on all relevant documents and analyses, this report has made appropriate recommendations for the further development and improvement of the PIFC system. The recommendations are also made in FMC and IA and are addressed to PFBs, especially DBBs (ministries, cities, etc.).

CHU represents the third pillar of the PIFC in RS. The findings and weaknesses identified in this report confirmed that strategic planning for the period until 2025 has been well carried out and the implementation of activities that will contribute to the improvement of the PIFC is already underway and integrated in the valid planning documents, but also through the regular work of the CHU.

During 2022, many activities were carried out in the area of PIFC through projects, with the main focus remaining on strengthening the concept of PIFC at PFBs. Emphasis was placed on communication with the PFBs in order to properly understand the importance of building and developing the FMC system and the function of IA.

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

In addition, CHU engages as an indispensable partner and facilitator in all activities related to improving the sense of managerial accountability in the administrative culture of RS.

In the last EC progress report, progress made within Chapter 32 was assessed as good. CAR provides a detailed overview of the status of recommendations and concrete progress in their implementation.

# I INTRODUCTION

## 1.1 Purpose and Objective

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

## 

## 1.2 Method and Methodology of the Preparation of CAR

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

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

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

The FMC reporting form has been significantly changed from last year's form, particularly in the self-assessment segment. For each of the 17 principles (within the 5 elements of the FMC system), the requirements describe the organisation's compliance or functioning in accordance with the specific principle of the COSO framework. The requirements listed are largely generic, i.e. they can be applied to any organisation to a greater or lesser extent, regardless of the activity and other specifics. The fulfilment of all requirements describes the "ideal" FMC system. Of course, the meaning of certain requirements may vary according to the characteristics and needs of each individual organisation. The requirements are formulated in the form of statements to be ticked (agree/confirm) if they apply to a particular organisation.

Finally, based on the responses to the statements illustrating each principle and its own beliefs, and taking into account the characteristics and needs of its own organisation, the PFBs Head gives his or her assessment (from 1 - NO to 5 - YES) of the extent to which the organisation he/she manages adequately meets the requirements, i.e. observes the stated principle.

An integral part of the FMC report is the Statement on Internal Controls.[[2]](#footnote-2). The Head of the PFBs signs one of two versions of the Statement, depending on whether specific weaknesses in the FMC system have been identified.

The new FMC reporting form was created with the aim of being much more intuitive and practical, i.e. easier to understand and more useful as a tool for managing the internal control system. PFBs can use it as a checklist to determine the status of the FMC, identify weaknesses and then make decisions on the activities to be undertaken to improve the system. The list of items that make up the FMC report is given in [Appendix 2 - Indicators of the status of the FMC system.](#_Прилог_2._Показатељи)

The form IA for the 2022 report has been slightly revised compared to last year. More detailed information on internal audit can be found in section [2.2 Internal audit](#_2.2_Интерна_ревизија).

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

**Table 1.** PFBs categorisation

| **Level** | **PFBs category** | **PFBs** |
| --- | --- | --- |
| Central Level | Ministries with administrative bodies in the composition | Ministries, administrations, directorates, and supervisory bodies within ministries. |
| Organisation of Mandatory Social Insurance (MSIO) | RHIF, SIFMP, Republic Pension fund and NEA. |
| Direct budget beneficiaries (other DBBs - excluding ministries and administrative bodies in their composition) | The National Assembly of the RS and its services, departments and offices of the Government of the RS, specialised agencies, autonomous and independent state bodies, judicial authorities that are DBBs, administrative districts... |
| Indirect budget beneficiaries (IDBs) | Schools, universities, judicial authorities other than the DBBs, centres for social work, cultural institutions. |
| Public Enterprises (PEs) | PEs and other legal entities carrying out activities of general interest and to which the law on PEs applies. |
| Other PFBs (excluding PEs) | Public bodies, organisations and legal entities performing entrusted, developmental, professional, and regulatory tasks of general interest, and other legal entities over which RS exercises direct or indirect control (excluding PEs). |
| Beneficiaries of RPIF | Healthcare and pharmaceutical institutions |
| Local level | DBBs | Local government agencies and services (provinces and LSGs) |
| IBBs | Cultural institutions, pre-school institutions, local communities... |
| Other PFBs | PUC and other legal entities over which AP or LSGs exercise direct or indirect control. |

The categorisation presented is based on the typology of the PFBs list published by the Treasury Administration of the MoF[[3]](#footnote-3), and takes into account the requirements of EC from Chapter 32 - Financial Control[[4]](#footnote-4). Taking into account the particular importance of ministries and administrative bodies in their composition, i.e. PEs at central level[[5]](#footnote-5), the above categories are listed separately.

Most indicators for 2022 are presented by the listed categories of the PFBs.  
 In the part related to the FMC system, the results for "priority PFBs" are also listed separately[[6]](#footnote-6).

In the case of FMC reports, and since the list of PFBs submitting reports and the form of the report itself are different, a direct comparison with previous years' results listed in the CAR is not recommended. As far as the organisational set-up of the FMC system is concerned, the changes compared to the previous year are shown by analysing the results of those PFBs that submitted reports for both 2021 and 2022.

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

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

# II THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

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

The PIFC in the public sector comprises three basic elements:

financial management and control;

internal audit; and

Central Unit for Harmonisation of financial management and control and internal audit.

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

The existing legal framework in the RS is based on international internal control standards. The FMC Rulebook states that the elements of the FMC system are aligned with the International Standards on Internal Control (by theINTOSAI), which includes the concept of the COSO framework. The IA regulations also stipulate the obligation to apply the international standards from IA[[7]](#footnote-7). The regulation prescribing the PIFC's scope is listed in [Appendix 1 - Legal Framework and International Standards](#_Прилог_1._Правни).

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

## Financial Management and Control

### 2.1.1 Concept and Definition

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

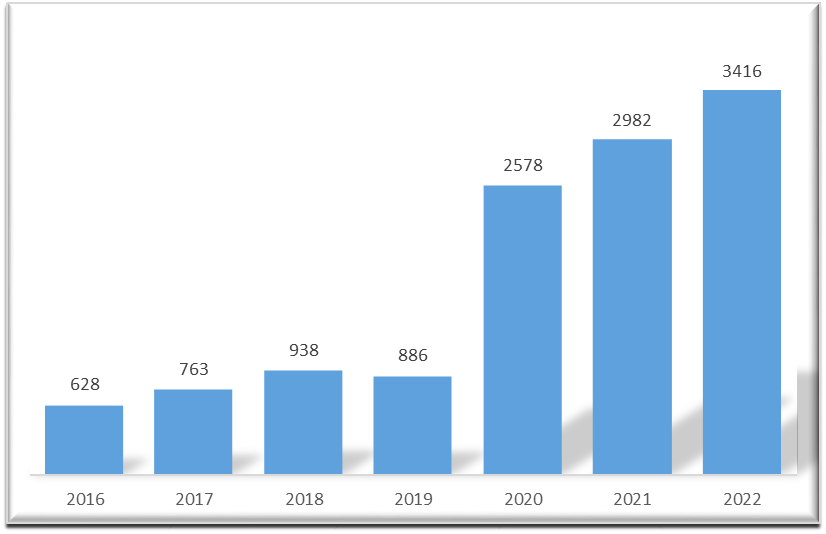
The FMC system consists of the following interrelated elements:

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

### 2.1.2 Scope of Submitted Reports

The FMC report for 2022 was submitted by 3416 PFBs. The high reporting rate registered last year (2982 PFBs) has continued to increase.

**Figure 1** Number of processed FMC reports submitted by PFBs by reporting year



**Table 2.** Reporting rates of key PFBs for 2022

| **PFBs** | **Number of PFBs that submitted reports** | **Reporting rate** |
| --- | --- | --- |
| Ministries | 25 | 100% |
| MSIOs | 4 | 100% |
| Independent and autonomous state authorities | 8 | 100% |
| Government services and offices and special organisations | 29 | 87.88% |
| Judicial authorities (DBBs of the RS) | 11 | 100% |
| PEs at the central level of the RS | 36 | 92.31% |
| Institutions of the AP Vojvodina | 25 | 96.15% |
| Cities | 27 | 96.43% |
| Municipalities | 104 | 88.89% |

The total expenditure and costs of all DBBs at the RS level (ministries with administrative bodies, judicial bodies, directorates, offices, agencies, institutes, services...) included in the CAR for 2022 account for 98.80% of the total expenditure and expenses of the RS budget for 2022.

The cities that submitted the FMC report manage 99.35% of the total realised expenditure of the city budget, and the municipalities that submitted the FMC report manage 91.07% of the total realised expenditure of the municipal budget[[8]](#footnote-8). The PEs at the central level of the RS, which submitted the FMC report, manage 99.98% of the total revenues of the PE group.[[9]](#footnote-9). Other PFBs at the local level (PEs/PUCs) that submitted the FMC report manage 88.42% of the total revenue of the mentioned category The institutions of AP Vojvodina that submitted the FMC report manage 99.96% of the total provincial budget.

Considered as a separate category, 95.83% of the priority PFBs submitted reports.

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

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

### 2.1.3 Establishment of the FMC system

***Elements of establishment and development of the FMC system***

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

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

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

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

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

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

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

***Parameters of the Elements for Setting Up the System***

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

[Annex 2 - Indicators of the status of the FMC system, within Table 1](#_Прилог_3._Приказ), provides data relating to the establishment of the MFC system, observed per PFBs category. The data in this table reveals the following: 70.40% of all PFBs that submitted annual reports appointed a FMC manager, while 67.07% established a WG for the introduction and development of the FMC system. The situation is still slightly better at local level (73.15% and 70.66%, respectively) than at central level (69.13% and 65.39%, respectively). However, we should point out that indicators in the segment related to the establishment of the FMC system have recorded a significant growth, especially when it comes to the IBB category at the central level, where 69.65 % have a FMC manager, and 66.23% have established a WG. The group of IBBs at the central level that regularly submit their reports recorded a 12.90% growth (FMC manager appointed) and 14.29% (WG founded).

The MSIO category continues to lead, considering that all organisations have either an FMC manager or an FMC working group. A relatively high share was also recorded in the PE group (88.89% and 86.11%, respectively). Ministries with their administrative bodies (85.11% and 72.34%, respectively) are not far behind, considering that several new ministries were established during the reporting period, which are actually only at the beginning of the process of establishing the FMC system. On the other hand, other DBBs at the central level (64.47% and 63.16%, respectively), and above all beneficiaries of the RHIF funds (57.27% and 51.10%, respectively), must pay more attention to this aspect of management. In local self-government bodies and PUCs at local level, about 4/5 entities have FMC managers or WGs.

An action plan (AP) for the establishment of the FMC system was adopted by 53.40% of all PFBs, specifically, 49.31% at central and 62.18% at local level. While 100% of organisations in the MSIO category have adopted the stated planning document, in the case of ministries with their administrative bodies, the situation is unsatisfactory (55.32%). One can see the understanding of the PFBs that after the introduction of the FMC, the need for the existence of the AP ceases to exist. This is an example of a misunderstanding because the system needs to be updated and improved according to plan. On the other hand, about three quarters of PEs at the central level, specifically 68.93% of all DBBs and 70.87% of all PUCs at local level have adopted an AP.

We found that 46.19% of all PFBs (40.78% at central level and 57.84% at local level) mapped their business processes. Apart from the MSIOs (100%), categories PEs at the central level (86.11%), local self-government bodies (70.55%) and local self-government authorities (77.97%) report satisfactory indicators. An increase in the percentage was recorded when it comes to the category of ministries with constituent administrative bodies (a 63.81% share, a 14.29% increase for entities that report regularly), but despite this, the situation cannot be described as favourable. Despite the observed 22.39% growth, still only a little more than a half of the beneficiaries of RHIF funds mapped their business processes with 40.53%. According to this parameter, the greatest growth in IBBs was recorded at central (38.28%) and local (39.38%) levels.

A risk management strategy was adopted by 55.39% (51.24% at central and 64.30% at local level), and a risk register was created by 43.62% of PFBs (38.59% at central and 54.43% at local level). We note that the above strategy is only a mandatory first step, the creation of which paves the way for the organisation to establish a Risk Register. An example of organisations that have fully established the basis for good risk management are those in the MSIO category. Conversely, the situation is unfavourable and unsatisfactory for other DBBs at the central level (51.32% and 46.05%) and IBBs (47.05% and 34.91%). There is modest, rather steady progress in the category of ministries with constituent administrative bodies (68.09% and 70.21%), while there is more marked progress in PEs (88.89% and 80.56%). At the local level, 86.44% and 71.75% of local self-governing bodies (DBBs at the local level) have adopted a strategy, i.e. established a risk register. Considering all PFBs, besides the increase in the number of organisations reporting on the FMC, there is a constant growth of those with an adopted risk management strategy of 18.41%, i.e. a risk register of 9.41%.

Article 21a of the Regulation on principles for internal organisation and systematization of workplaces in ministries, special organisations, and government services[[10]](#footnote-10) prescribes the obligation for ministries, bodies within ministries and special organisations to designate an internal unit for planning documents and management support. In 2022, 52.00% ministries, 36.36% of administrative bodies and 44.44% of special organisations, i.e. 44.62% of these organisations fulfilled this obligation.

The share of IBBs in the total percentage of PFBs reporting on the state of the FMC is extremely high, and this category regularly records weaker results on average compared to other categories of PFBs. Nevertheless, this gives cause for optimism, as it is in this category that the greatest progress is recorded and these organisations quickly reach the level of those recording high scores, i.e. internal control systems are developing rapidly.

***Introduction of the FMC System at Organisational Level in Priority PFBs***

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

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

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

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

* Seven ministries failed to draw up business process maps:

1. Ministry of the Interior;
2. Ministry of Rural Welfare;
3. Ministry of Family Welfare and Demography;
4. Ministry of Human and Minority Rights and Social Dialogue:
5. Ministry of Education;
6. Ministries Science, Technological Development and Innovations and
7. Ministry of the Foreign Affairs.

* The following ministries failed to adopt a risk management strategy:

1. Ministry of the Interior;
2. Ministry of Culture;
3. Ministries Science, Technological Development and Innovations and
4. Ministry of Information and Telecommunications;
5. Ministry for Public Investment;
6. Ministry of Family Welfare and Demography;
7. Ministry of Human and Minority Rights and Social Dialogue:
8. Ministry of Agriculture, Forestry and Water Management and
9. Ministry of the Foreign Affairs.

* The following failed to develop their risk register:

1. Ministry of the Interior;
2. Ministry for Public Investment;
3. Ministry of Rural Welfare;
4. Ministry of Family Welfare and Demography;
5. Ministry of Human and Minority Rights and Social Dialogue:
6. Ministry of Education;
7. Ministries Science, Technological Development and Innovations and
8. Ministry of Agriculture, Forestry and Water Management and
9. Ministry of the Foreign Affairs.

The analysis has shown that 20% of the ministries (5 out of 25) have none of the three basic indicators of an established FMC system, in other words, they neither have a business process map, nor a risk register, nor a risk management strategy. The following belong to this group:

1. Ministry of the Interior;
2. Ministries Science, Technological Development and Innovations;
3. Ministry of Family Welfare and Demography;
4. Ministry of Human and Minority Rights and Social Dialogue and
5. Ministry of the Foreign Affairs.

c) Out of 36 PEs at central level that submitted their reports, the following 5 do not have a business process map, specifically:

1. Elektrodistribucija Srbije d.o.o. Beograd;
2. PE “Mreža - Most”
3. “Državna lutrija Srbije”, d.o.o. Beograd;
4. “Metohija”, d.o.o. Beograd and
5. D.o.o. Tvrđava Golubački grad Golubac.

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

1. “Državna lutrija Srbije”, d.o.o. Beograd;
2. Elektrodistribucija Srbije d.o.o. Beograd;
3. D.o.o. Tvrđava Golubački grad Golubac and
4. “Srbija voz”, a.d.

The following 7 PEs did not compile a risk register:

1. PE “Stara Planina” Knjaževac;
2. PE UCE Resavica;
3. PE “Mreža - Most”
4. “Državna lutrija Srbije”, d.o.o. Beograd;
5. Jointstock company “Elektroprivreda Srbije”, Beograd;
6. D.o.o. Tvrđava Golubački grad Golubac and
7. “Srbija voz”, a.d.

Based on the foregoing data, we can see that the following 2 PEs (5.5%) did not meet any of the three basic requirements of the process of establishing the FMC system:

1. “Državna lutrija Srbije”, d.o.o. Beograd and
2. D.o.o. Tvrđava Golubački grad Golubac.

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

1. PE “Nacionalni park Kopaonik”, Kopaonik;
2. Nature park “Mokra Gora” d.o.o. Mokra Gora.

d) At the local government level, i.e., in the DBBs in the 27 cities which submitted their reports, the situation regarding the basic components of the organisational establishment of the FMC system is as follows:

* The following cities did not map their business processes:

1. Loznica;
2. Novi Pazar;
3. Leskovac and
4. Valjevo.

The City of Novi Pazar failed to adopt its risk management strategy.

* The following cities do not have a risk register in place:

1. Smederevo;
2. Novi Pazar;
3. Kraljevo and
4. Zaječar.

The City of Prokuplje did not submit its annual reports on the FMC system.

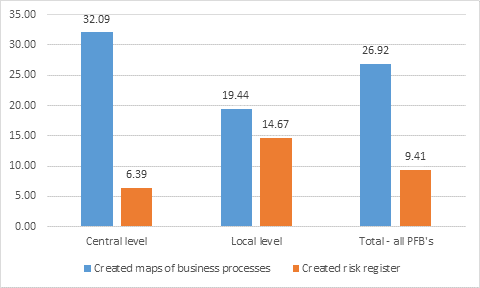
It is necessary for the above-mentioned PFBs to remedy the identified deficiencies. Also, overall, priority PFBs should improve their capacities and demonstrate the positive effects of the internal control system, in other words, become leaders in the implementation of this concept. In the case of DBBs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

***The Pace of Establishment of the FMC System in Serbia***

The status of the organisational establishment of the FMC system was analysed by observing the group of central and local level PFBs that report regularly. By analysing the growth rate at the level of all PFBs in Serbia in the 2021–2022 period, we clearly see that there has been significant progress. An increase of 11.44% and 12.53%, respectively, was recorded in the part of the organisational establishment of the system, which entails the appointment of FMC managers and setting up WGs. Even greater progress was noted in the elements related to FMC implementation and development, such as the adoption of an action plan (19.25%) and a risk management strategy (18.41%). The number of organisations that have business process maps has grown by as much as 26.92%, while a tangible increase was recorded in the compilation of risk registers (9.41%).

Figure 2 illustrates the trends (growth rates) of the share of PFBs which have developed business process maps and risk registers in the 2021–2022 period.

**Figure 2**. Growth rates (in %) of the share of PFBs that have mapped their business processes and drawn up risk registers in the 2021–2022 period



The progress in the number of organisations that have developed business process maps at the central level (32.09%) is primarily due to the activity of IBBs at 38.28%, followed by users of RHIF funds at 22.39% and the remaining categories of DBBs excluding ministries with their administrative bodies (19.44%), i.e. other PFBs users excluding public enterprises at the central level (19.15%).

At the local level, IBBs are the most active in developing business process maps (39.38%), while the categories of DBBs (9.17%) and other PFBs (8.74%) have made more modest progress, as the percentage of production of these documents was previously at a much higher level than for IBBs.

Observing the priority PFBs as a separate category, it is imperative that they improve the level of organisational establishment of the FMC system in the coming period, above all when it comes to the preparation of key documents. In organisations from this group, 82.61% have business process maps, and 78.26% have risk registers.

Considering the fact that more and more PFBs (2022: 77.28% with an increase of 6.33% compared to 2021) use the FMC manual as part of the activities to build and develop the internal control system, we can expect further developments when it comes to the organisational set-up of the FMC system according to modern standards. The percentage of appointment of persons or working groups responsible for FMC in 2022 stood at 63.03%. The fact that there is an annual growth of 16.07% in this area is encouraging and shows the commitment of PFBs in establishing and developing the internal control system.

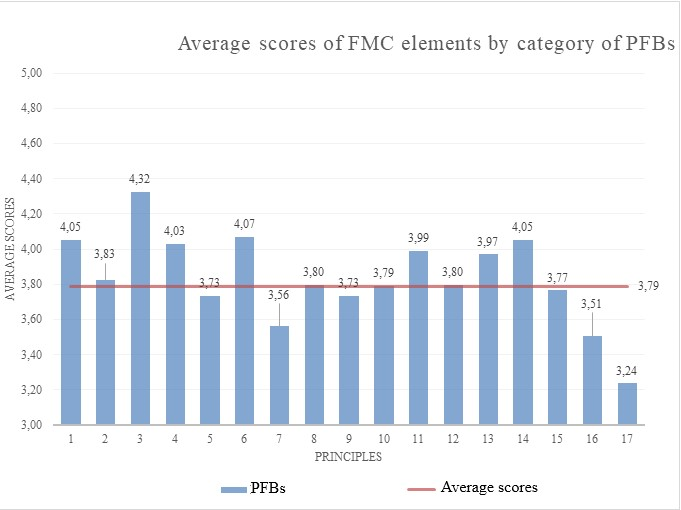
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### 2.1.4 Self-Assessment – the COSO Framework

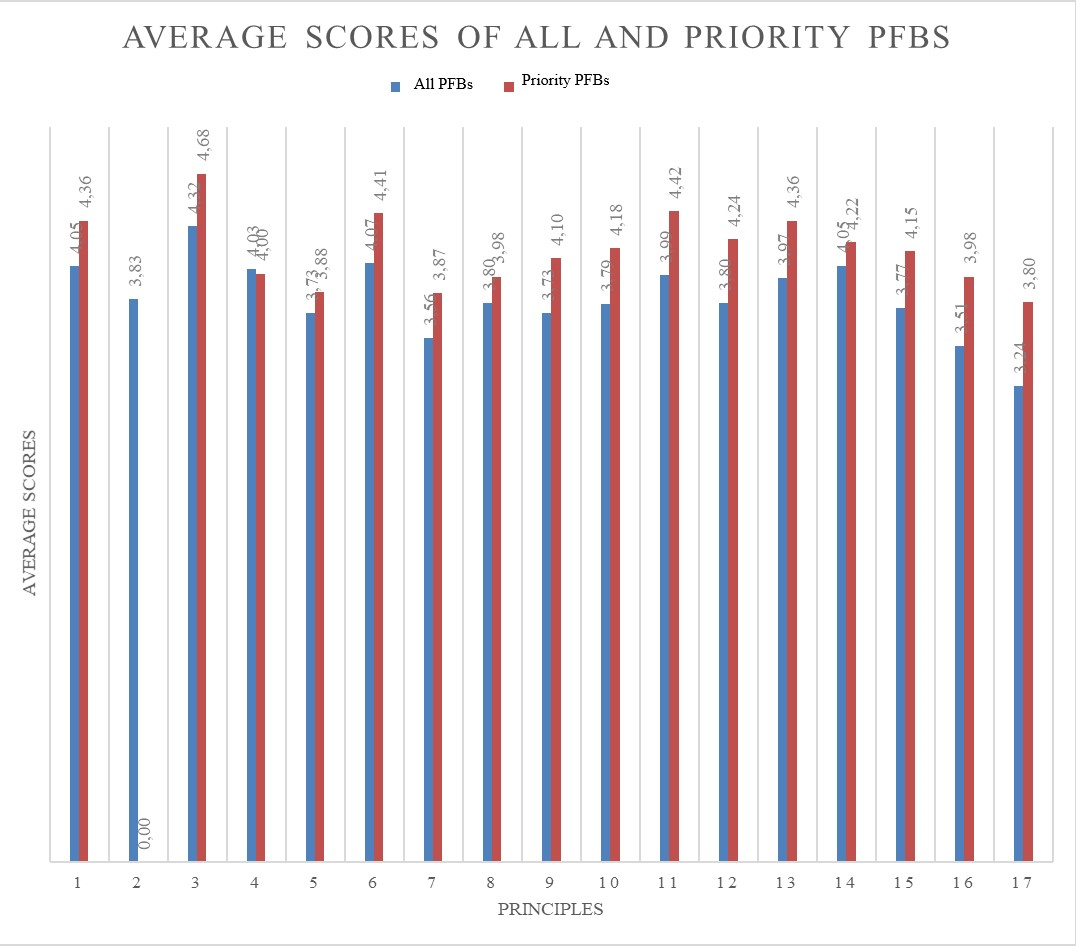
The degree to which the FMC system is established is assessed according to the COSO internal control framework from 20131[[11]](#footnote-11). In that context, FMC should be seen as a dynamic and integrated system. The internal control systems and concrete solutions will inevitably differ depending on the specificities of PFBs, i.e., characteristics and requirements of the individual entities. The special feature of this year's reporting is, as already mentioned, the improved and simplified form of the FMC report for 2022. In the next section of this report, we will discuss the key results (based on the PFBs’ self-assessment average scores, i.e. priority PBFs listed in brackets) and share/percentage of the implementation of each item/requirements per principles and elements of the COSO framework. The stated values are also presented per categories of PFBs in Section – [1.2 Method and methodology of the Consolidated Annual Report.](#_1.2_Начин_и) A detailed overview of the average scores and participation is presented in the tables in Annex 2 – Indicators of the status of the FMC system.

PFBs rated the level of application of the COSO principles with an average of 3.79, suggesting that there is room for improvement. However, if we look only at the priority beneficiaries who rated the established system at 4.15, we can be satisfied with the rating, i.e. with the established system. There is room for further improvement, and this will be verified/confirmed by reviewing the quality of the FMC system undertaken by CHU in the coming years.

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

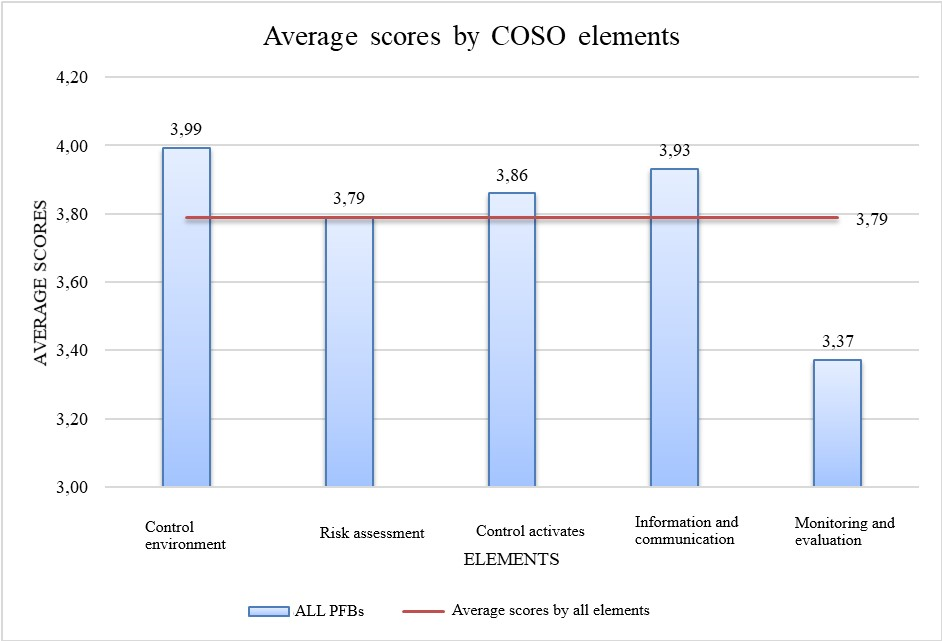


**Figure 4** shows the ratio of the average scores of all PFBs and the priority PFBs[[12]](#footnote-12)



Looking at the PFB categories, MSIOs has a clear advantage in all elements compared to the other PFB categories, i.e. it scores better. The average score of the central level PFBs is also significantly higher than that of the local level PFBs, mainly due to weaker indicators in IBBs, but also in other PFBs - PUCs.

The **Figure 5** shows the average scores for all elements of COSO, while below follows the analysis of the system for each element of internal control.



1) T**he control environment** refers to defined standards, processes, and structure in the organisation. It represents the internal organisation and creates discipline, thus providing the basis for the establishment and functioning of the FMC system.

In this segment, the leadership role of top management is crucial, and they are expected to send a clear message about the standards of conduct and the importance of the FMC system ("tone at the top") throughout the company and also to the outside world. It is necessary that leaders, by their own example, i.e. their activities and responsible behaviour in general (commitment to moral principles, communication, leadership, setting adequate resources for the development of internal control), promote the creation of an appropriate organisational culture and a generally favourable environment for the development of the FMC system and the achievement of the organisation's overall objectives.

The average score for this element is 3.99 (4.23). The control environment element is otherwise the highest rated when we look at all categories of PFBs. Among priority users, the element of control activity was the highest rated, followed by information and communication, while the element of control environment was only third. It should be noted that the average scores of priority users for each element of internal control are higher than for all categories of PFBs. Although it was expected that the control environment element would be rated highest by the priority PFBs, this did not occur. However, as the differences between the elements are very small and considering that even four out of five elements were rated above four by the priority PFBs – “third place” does not require any special analysis but rather indicates a relatively uniform development, i.e. relatively uniformly established COSO elements.

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

The data show that the principle requiring management to establish organisational structure, reporting lines and appropriate authority and responsibility in the function of goal achievement scored highest at 4.32 (4.68), while the principle assessing whether the organisation establishes the system of individual accountability of staff for the performance of assigned tasks in FMC scored 3.73 (3.88), indicating the need to continue working on improving individual accountability. As the Monitoring and Evaluation element has the lowest score of 3.37 (3.89) compared to the other elements, this indicates that more attention needs to be inved not only to creating an adequate environment but also to ensuring the successful functioning of the system put in place. This element is specifically analysed in the section dedicated to monitoring and evaluation.

Below are the scores for each of the principles of this element:

(a) *The level of demonstrated commitment to integrity and ethical values* was rated 4.05 (4.36).

The code of conduct, i.e. defined standards of conduct, is in place in most PFBs 89.14% (93.81%), but only 41.69% (52.58%) of PFBs regularly analyse compliance data, i.e. update/improve policies, communication, training, mechanisms for prevention and detection, and action in case of violations of the standards of conduct, as needed.

The mechanism for reporting, centralising and deciding on suspected corruption, fraud, financial reporting errors, procurement irregularities, improper handling of equipment, misrepresentation and provision of false information needs improvement and should be strengthened. The percentage of PFBs that have this mechanism in place is 62.56 (67.01).

Considering their characteristics and needs, PFBs rated with a score of 4.05 (4.36) that their organisations adequately demonstrate their commitment to integrity and ethical values.

b) *The requirement for independent, competent, and effective oversight* by management/supervisory board applies more to companies and institutions than to public authorities. In this context, MSIOs and PEs report a high level of respect for the above principle (average scores, i.e. percentages show this), while in other entities and other PFBs, excluding PEs, this level is lower.

The average score for this principle is 3.83 and as mentioned earlier, it should be noted that some of the PFBs (Ministry with boards in composition and DBBs) do not have an oversight authority/board. With this score, the PFBs assessed whether the organisation's oversight body (supervisory/management board) adequately demonstrates independence from management and monitors the development and functioning of the FMC. As the score of this principle is relatively low despite the fact that the system has been established, further work is needed to improve oversight.

c) *An organisational structure with clearly defined authorities and responsibilities* – a high percentage of all categories of PFBs confirmed that an established organisational structure, reporting line, authorities and responsibilities are set 90.19 (97.94); as well as job descriptions for each job - 96.43 (98.97), and that all staff members are familiar with their roles and responsibilities - 96.72 (97.94).

Almost all the responses to the questions have extremely high percentages (the lowest is 71.25 (86.60)), and the average score of 4.32 (4.68) for this principle is the highest average score of all the principles analysed. From this we can conclude that the PFBs have a high level of understanding of the importance of a good organisational structure with clearly defined reporting lines, division of authority and responsibilities in the function of achieving objectives.

Of particular note is the MSIO category, where all options listed in the report in relation to this principle were ticked 100%, indicating that this principle is fully established with them.

d) *Effective management of human resources* – What is striking about the responses to the assertions/views on this principle is the low percentage of PFBs that have an established mechanism to recruit and retain qualified staff and it is only 27.25 (25.77). Unlike the other elements, MSIOs lags behind all other PFBs with 25% at the central level, while this percentage is around 20 at the local level for all PFBs.

The PFBs determine the level of knowledge and skills required for each job - 96.46 (96.91) and provide for the development of staff competencies through training, seminars, study tours, etc. 88.58 (94.85). However, the responses to the views/assertion that there is adequate number and structure of staff show a difference when we single out only the priority PFBs (57.73%) from all PFBs (71.90%). This is one of the rare examples of the priority PFBs category having a drastically worse result than the average, but we also find that the rest of the DBBs group does not have an adequate number and structure of staff (50%).

This paper does not go into more detail on these indicators, but we can draw some general conclusions. Although the PFBs scored this principle at 4.03 (4.00), i.e. this is the average score with which the PFBs assessed whether the organisation manages human resources appropriately, taking into account the characteristics and needs of their organisation, they still answered almost every single assertion/view showing that there is much room for improvement. A deeper analysis shows that the importance of staff recruitment and retention is not recognised and that there is a lack of good human resource policies, which is common to all PFBs. The figures also show that there are problems in managing human resources that would allow for adequate working conditions and staff promotion. The greatest lack of staff is evident in the main institutions of RS, namely in half of the ministries and MSIOs, as well as in a group of other DBBs at central level.

The problems that arise due to the outflow of quality personnel are numerous, leading to a decline in quality in the performance of certain tasks, the breakdown of institutional memory, a decline in motivation, etc. As this is true for all PFBs, there is a need to systematically develop and build good policies for attracting and retaining staff; policies that modernise and improve systems for promotion, reward and training, as well as other aspects of work that negatively affect overall staff capacity. Without suitable/quality and motivated staff, the FMC system, as well as the organisation as a whole, cannot function satisfactorily and fully achieve its objectives.

e) *Individual accountability of employees for fulfilment of tasks* – The establishment of a system of individual responsibility for the performance of internal control duties is still at a rather low level - 3.73 (3.88) and, with the principle of verifying that the oversight authority/body is independent vis-à-vis management and supervises the system of internal controls, belongs to the group of principles with the lowest score and, accordingly, the PFBs should pay more attention to the further development of their institutions in this segment in the coming period.

Although the individual responsibility of all managers for the achievement of objectives and for the implementation of projects and activities for which they are authorised is clearly defined to a high percentage and stands at 83.99 (95.88), and the percentage of employees who are familiar with their work tasks is even higher/better and stands at 97.13 (97.94), on the assertion/views that the effectiveness of the work performance measures and incentive mechanism is regularly evaluated and adjusted if necessary - only 35.48% (44.33%) of the PFBs responded positively. Considering that a high percentage of PFBs responded that management assesses the level of workload/pressure faced by staff and redistributes excessive workload, 55.27% (69.07%), there is room for further progress on the level of establishing an effective system of managerial accountability at PFBs as well as ensuring a higher level of monitoring and redistribution of excessive workload among staff.  
 And this time we emphasise that without the existence of clear criteria and indicators, i.e. positive and negative consequences of performance and behaviour, the system of internal controls is not fully sustainable, and it is necessary to improve the system of monitoring and redistribution of excessive workload of employees in order to prevent potentially negative effects on performance, but also the occurrence of “shortcuts” and avoidance of controls by employees.

***2) Risk management*** entails the identification, evaluation and response to potential events and situations that could negatively affect the achievement of the PFBs’ objectives. PFBs should strive to assess and manage risk in all parts of the organisation. Sound risk assessment is one of a series of steps that prevent/reduce the occurrence of irregularities. Inadequate management of risks, on the other hand, can jeopardize the achievement of an organisation's goals, most often resulting in only a partial and/or belated achievement thereof.

The principles, i.e. the requirements that the organisation's internal control systems must fulfil in the function of good risk management, include the following: a) defining clear goals, 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.

The average score of this element is 3.79 (4.09) and is the lowest scored element after the monitoring and evaluation element when we consider all PFBs but also the priority PFBs. It is important that the PFBs continue to improve and develop risk assessment. Organising practical workshops to better explain this element with practical examples and by linking it to other elements is one of the ways to improve the understanding of this element.

а) *Setting clear objectives* – The overall average score of 4.00 suggests that PFBs largely meet the requirement related to formulating clear objectives, which is the basis for identifying and analysing associated risks. PFBs at the central level define and adopt operational objectives.

75.20% (91.75%) of PFBs confirmed that operational and strategic objectives are linked and that the objectives themselves emerge from the strategic objectives. 62.09% (87.63%) of PFBs confirmed that objectives are specific, measurable, achievable, realistic and time-bound (according to the “S.M.A.R.T.” principle).

When it comes to **allocating resources based on objectives,** only 52.11% (75.26%) of PFBs answered “yes”. The IBBs at central and local level stand out particularly negatively.  
 Satisfactory percentages are reported only by MSIOs, where this percentage is 100, and by PEs with 80.56. On the other hand, when it comes to **the process of planning** resources in line with the organisation's objectives, the data shows that this is established in 90.22% (93.81%) of the PFBs. From this we can conclude that there is insufficient understanding among the PFBs of the link between objectives, resource allocation and their planning.

On the other hand, 88.29 (94.85) of PFBs affirmed the statement that the objectives are in accordance with laws and other regulations.

*b) Identification and analysis of risks for the achievement of objectives and related available management options (potential responses to risk).* When asked to assess whether the organisation adequately identifies and analyses risks, taking into account the characteristics and needs of the organisation, the PFBs scored this principle 3.56 (3.87).

IBBs at central and local levels with percentages of 38.37 and 37.12 need to start maintaining a risk register, but the risk register also needs to be updated regularly, which is not yet satisfactory for these two categories of PFBs with - 32.30, i.e. 32.44.

Although some of the PFBs have satisfactory results in the responses to the given assertion/views illustrating the principle, the average scores of the principle, when considering the PFBs as a whole, show that it is one of the worst scored. For this reason, in the near future PFBs will have to pay additional attention to improving the identification and analysis of risks that may affect the achievement of objectives, as insufficient compliance with this principle is a serious deficiency in internal control systems.

c) *Fraud risk assessment* – PFBs assessed with 3.80 (3.98) on whether they adequately address fraud risk.

Considering the previous principles of this element, it is evident that PFBs is making some but insufficient efforts to improve this area. As before, a more serious approach is taken by the MSIOs and the ministries with constituent administrative bodies and the rest of the PFBs at central level to a slightly lesser extent, while the IBBs at both central and local level record the lowest percentages. In particular, there is a tendency for PEs at central and local level to have weaker results than other types of PFBs when it comes to assessing the risk of theft (about 58% answered that they assess this type of risk). The risk of corruption at central level is estimated by only 65.18% of the PFBs, at local level by 56.18%. 64.87% of the PFBs assess the risks of false and incomplete reporting.

d) The change management principle involves reviewing and assessing changes in the external environment (regulatory, market-related, physical) as well as internal changes (operational, personnel-related, organisational).

The existence of mechanisms to identify and respond to the risks of these changes in a timely manner is still not fully recognised as an important factor in achieving organisations' objectives, as indicated by the score of 3.73 (4.10).

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

The average score for this element is 3.86 (4.28). If we consider all the PFBs, this element is at the level of the overall average. Of the five elements, its average is third, but when we look at the priority PFBs, this is the highest scoring element, indicating that the priority PFBs are aware of the importance of control activities in their organisations. Of course, many things need to be taken into account in order to carry out control well and with high quality, but just recognising the importance of this element is an important step in the further development of the PIFC system.

a) When analysing the principle of *defining appropriate control activities to reduce risk*, we should bear in mind that the majority of PFBs that regularly submit their annual reports has already completed the first phase, i.e., the cycle of initial establishment of the FMC system.

A large percentage of PFBs identified and described key business processes: operational – 80.59 (95.88), support processes 78.51 (93.81) and management 77.43 (89.69). Parts of the business processes that require control activities were also identified by the highest percentage of PFBs 62.85 (86.60). On the other hand, the assessment of the effectiveness and efficiency of different types of control activities is only carried out in 33.69% (48.45%) of the PFBs, so there is a risk that the controls in place are not adequate.

A mix of different controls, such as preventive and detective, i.e. manual and automatic, is present in 37.12% of PFBs (69.07%). It can be said that in almost all PFB groups, with the exception of MSIOs and PEs at central level, there is a need to work on diversification of controls, based on an analysis of costs and benefits of the available alternatives.

The documentation of control activities in the organisations (process maps, written procedures), which was established in 52.34% (85.57%) of the PFBs, also needs improvement, with the exception of MSIOs and ministries with administrative bodies. With the establishment of the IA function in PFBs groups with a lower score, an improvement in the results can also be expected, as it is the IA that has the greatest influence on the above-mentioned improvement in controls with its work.

Adequate segregation of duties is ensured by the majority of PFBs, namely 63.41% (87.63%). There are problems with smaller PFBs, especially in the IBBs category, where this condition cannot be fulfilled due to the small number of staff. In such cases, it is necessary to apply additional mechanisms, mostly in the form of increased supervision. However, the results show that the IBBS, both at central and local level, have not properly responded to the impossibility of segregation of duties, i.e. it is questionable to what extent they are able to compensate for the mechanisms that ensure segregation of duties by strengthening controls.

Based on the indicators, we conclude that some weaknesses have been identified in most organisations in the area of developing and implementing control measures designed to reduce risk to an acceptable level. Characteristic of most organisations is a relatively low percentage of those that regularly review and redesign control activities.

In PFBs, there are defined rules and procedures to ensure the security of information, 73.10% (85.57%), while in the preparation of business continuity plans in case of unforeseen circumstances, this percentage is 60.25 (73.20). Considering the recent pandemic, as well as unforeseen weather disasters that are occurring with increasing frequency, it is reasonable to assume that this percentage will increase in the near future.

b) Regarding the principle related to the *selection and development control activities in the sphere of IT infrastructure*, PFBs scored 3.99 (4.42) on whether the organisation adequately selects and develops technology infrastructure control activities. For the most part, the PFBs has established control mechanisms in the area of procurement, development and maintenance of IT systems. However, at the local level, the IBBs need to improve the segment of control activities related to the procurement process, authorised access and functioning of the IT infrastructure, including continuity of operations and protection against data loss.

Taking all PFBs into account, there is a high level of IT system security, as appropriate procedures and rules are defined from data input through processing to the output of information.

c) The principle of *implementing control activities through policies and procedures*. 84.28 (92.78) of the PFBs established policies and procedures to the greatest extent, and for the most important business processes, they were documented/written in 75.82% (88.66%) of the PFBs. In addition, the vast majority of PFBs defined concrete steps/actions and their sequence for their key processes 67.45 (87.63).

The percentage of PFBs reporting exceptions, i.e. approved deviations from established procedures, is relatively low - 36.53 (45.36), as is regular review and redesign of control activities - 43.09 (58.76). This suggests that there is room for improvement and that greater cooperation with IA is useful in reviewing and redesigning control activities.

Considering the characteristics and needs of their organisation, the PFBs scored 3.80 (4.24) that the organisation adequately implements control activities through policies and procedures. In this context, it would be particularly necessary to improve the reporting of exceptions and the regular review and redesign of control activities.

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

PFBs rated that their organisations receive, produce and use relevant, high-quality information with 3.97 (4.36).

Looking at all PFBs, this element is rated highest after the Control Environment element (3.93 (4.24)), indicating that PFBs understand the importance of communication, both internal and external.

а) Based on the data obtained concerning the principle of *obtaining or generating and using relevant and high-quality information,* we can conclude that PFBs have a satisfactory information base for the business operation of organisation functioning of the FMC system – 70.93% (91.75%). When collecting and processing information, 82.41% (94.85%) of PFBs consider prior compliance with personal data protection regulations. In addition, 80.12% (91.75%) of PFBs have a system in place to ensure that staff who need information can easily obtain it. A high percentage of PFBs have a system in place to prevent unauthorised access to information - 83.20% (91.75%) as well as storage of information for a long period of time - 83.72% (94.85%).

Nevertheless, more attention should be paid in the near future to assessing the benefits and costs of obtaining and using information, as the percentage of PFBs that do so is relatively low at 44.73 (51.55), as is the assessment of the system for collecting, processing and distributing information, where the percentage of PFBs with an established system is 54.98 (69.07).

B) The PFBs rated the principle of *internal communication* highly - the average overall score is 4.05 (4.22).

A large percentage of the PFBs has an effective and efficient system of written, electronic and oral communication (91.19 (97.94)), new staff and staff in new positions are familiar with their roles and responsibilities (91.07 (93.81)) and staff are familiar with the organisation's objectives (92.65 (92.78)).

Nevertheless, the PFBs need to improve the way they record information about non-standard behaviour (suspicions of irregularities, complaints, etc.), as the percentage of those who have this system in place is relatively low (40.81 (46.39)), which additionally leads to poor results in the analysis of such behaviour by independent persons relative to the persons whose behaviour is the subject of the report (44.70 (48.45)).

c) When it comes to the principle of *external communication*, the score of the adequacy of the means of communication is 3.77 (4.15), which leads to the conclusion that there is room for improvement. With a percentage of 86.12 (97.94), a high level of transparency was ensured in relation to external actors. The percentage of PFBs that have procedures/rules to approve official external communication before releasing information is high at 69.70% (84.54%). In 76.67% (93.81%) of PFBs, there are open communication channels through which beneficiaries of services can give and receive information in direct contact, raise complaints and objections, etc. On the other hand, the figures show that the existing procedures and methods of external communication are not regularly analysed or improved/updated. The percentage of PFBs that do so is 47.86 (59.79).

The rather high percentage of PFBs of 63.41 (80.41) needs to be additionally analysed in terms of the extent to which management has and takes into account external information on trends and new circumstances that may have a significant impact on the achievement of objectives. This result is somewhat at odds with the low scores for the existence of mechanisms to detect and respond to the risks of internal and external changes. This suggests that, as in previous years, the changes are only being considered, but there is still no systematic approach to managing them.

*5)* ***Monitoring (supervision) and evaluation*** refer to the implementation of mechanisms to monitor the FMC system, i.e. assessing the adequacy and efficiency of its functioning.

It is necessary for the organisation to a) design and conduct assessment activities continuously and/or periodically and b) analyse and communicate observed weaknesses in a timely manner and then monitor the implementation of corrective actions.

The average score of this element is the lowest and stands at 3.37 (3.89), indicating that the monitoring, i.e. the PFBs does not pay enough attention to monitoring Of course, we take the MSIOs out of this average, as with all elements, as its ratings for most principles are the highest.

а) The scores lead us to conclude that *the principle related to the assessment of the status and functioning of the internal control system* in PFBs is still not sufficiently present. An average score of 3.51 (3.98) was given for the assessment of whether the organisation adequately monitors and evaluates the functioning of the FMC. It is also a fact that smaller PFBs often do not have sufficient capacity to implement certain monitoring mechanisms, such as internal and external audit.

The percentage of PFBs that reported that staff comply with procedures and perform their duties, that managers and staff monitor whether control activities are functioning as intended, that managers monitor the achievement of objectives by staff and the part of the organisation they manage, and that management regularly receives information from staff on the performance of work tasks, risks and irregularities is over 70% (90%). The percentage of PFBs where managers monitor compliance with laws and regulations is 94.94% (100%).

Regarding the self-assessment of the FMC system, which was carried out independently of the annual reporting process, as many as 23.65% (25.77%) of the PFBs have carried out an extraordinary self-assessment of the system. Considering that the preparation of the FMC report is a form of regular reporting, we can be satisfied with the percentage of PFBs who also carry out this form of self-assessment. We can also be satisfied with the high percentage of PFBs that analyse the reasons for possible non-achievement of the objectives 75.38 (86.60). On the other hand, the percentage of PFBs assessing whether the exceptions identified are justified is low - 35.80 (37.11), as is the percentage of PFBs taking action in this regard - 38.06 (45.36).

Comparing the high percentages received by the PFBs in relation to the information and communication element with the information received in relation to setting up a system to prevent unauthorised access to information, i.e. long-term storage of information, with the relatively low percentages received in response to the indication that an assessment of the information security and/or IT infrastructure was carried out during the reporting period, this shows that the PFBs do not fully understand the importance of the information security and/or IT infrastructure.

In addition, it should be noted that the averages reported at central level are lower than those reported at local level, considering that the central level data also includes MSIOs’ data. The percentages of the PFBs are particularly low when it comes to monitoring the implementation of the activities foreseen in the AP and analysing the reasons for possible deviations from the AP; the establishment of the IR function; whether an internal audit was carried out in the organisation during the reporting period; and whether an external audit was carried out during the reporting period.

b) As regards the principle related to *the analysis and communication of identified weaknesses and follow-up on corrective action*, the overall situation should be much better given the score of 3.24 (3.80).

After all, 64.64% (74.23%) PFBs collects and analyses all information relevant to FMC from all available sources. Besides MSIOs (100%), PEs (83.33%) and the ministries with administrative offices (74.47%) stand out. It is noticeable that this percentage is above 60 in all PFBs, indicating that PFBs are investing in this aspect of the internal control system.

However, only 52.99% (61.86%) of the information on FMC deficiencies/weaknesses identified is communicated to management in a timely manner. Since timely communication of information enables management to respond in a timely manner and prevent potential problems/losses, it is necessary to identify the reasons for not communicating information in a timely manner and work on their elimination. In the section where we analysed the element of control activities, we found that the documentation of control activities in the organisations (process maps, written procedures) prepared in 52.34% (85.57%) of the PFBs needs improvement, which is confirmed by the percentage indicated. Documented control activities should have their practical application and not just be a "dead letter on paper". One of the indicators of need for improvement is the insufficiently high percentage of organisations where the information about the identified deficiencies/weaknesses of the FMC is forwarded to the management in a timely manner. Deadlines should be part of this documentation.

When analysing the degree of consideration, acceptance and implementation of the internal and external auditors' recommendations, the percentages are low at first sight. The percentage of consideration of the IA recommendations is 25.35 (70.10), i.e. 41.39 (88.66) when it comes to recommendations of the external auditors. The percentage of accepted IA recommendations (if there were any) is 22.72 (67.01). On the other hand, the percentage of accepted external audit recommendations is slightly higher - 36.91 (82.47). However, a more detailed analysis shows that the recommendations are not only considered but also accepted and implemented in a timely manner. The table below shows the percentages obtained when analysing only those PFBs that responded that they have an internal or external audit. Thus, the percentage of PFBs that consider the IA recommendations is 93.08 (95.08) and the percentage of those that consider the recommendations of the external audit is 93.53 (96.30). The percentage of accepted recommendations is slightly lower, and when it comes to the IA recommendations, it is 86.92 (93.44), i.e. 89.18 (87.65) for the recommendations of the external audit.

From the above, it can be concluded that both internal and external audit are understood by PFBs as important management support functions and that there is no significant difference in the way PFBs respond to their findings.

What we need to focus on in the coming years is increasing the number of institutions where internal and external audits are conducted.

None of the PFB categories, with the exception of MSIOs, have sufficiently established procedures for staff to inform management of perceived weaknesses in the internal control system, and this part of the system also needs to be improved. This is particularly important for PFBs that do not have an established IA function.

***We would like to point out once again that due to changes in the questionnaire it is not possible to compare the results with those of previous years, at least not in their entirety. However, as this is a self-assessment by the PFBs and the questionnaire has been improved and simplified, we expect that with further work on improving the system, the scores (percentages) will increase. It is also planned to provide additional training/instructions on how to fill in the questionnaire to further support and encourage the PFBs and in this way enable them to better understand the system and the need for its continuous improvement.***

### 2.1.5 Statement on Internal Controls

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

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

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

PFBs Heads can select one of the two Statement options offered. The selected option, if no weaknesses in the system have been identified, confirms that the internal control system is operating effectively and efficiently, and that the organisation is managed in accordance with the principles of legality, regularity and good financial management. The second option confirms that there are certain weaknesses in the system of internal controls which will be remedied as soon as possible and that, despite the weaknesses identified, the system of internal controls is operating effectively and efficiently, and the organisation is managed in accordance with the principles of legality, regularity and good financial management.

The analysis revealed that of the Statements received, about 67% of PFBs Heads signed a statement confirming that there are no perceived weaknesses in the system of internal controls, while about 33% of PFBs Heads signed a statement confirming that the system of internal controls is functioning despite the perceived weaknesses and that the perceived weaknesses will be remedied in the shortest possible time.

About 56% of the PFBs submitted the Statement electronically, while about 40% of the PFBs submitted the Statement by post. A part of the PFBs (about 4%) either did not submit the Statement, or did not submit it in the prescribed manner, i.e. deficiencies were found in connection with the submission of a non-prescribed form of the statement and/or the changing of its text, the signing of the Statement by a person who is not the Head of the PFBs, or the failure to submit a statement.

### 2.1.6 FMC from the Perspective of PFBs

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

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

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

PFBs, belonging to all categories, emphasise:

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

### 2.1.7 Management of Irregularities

The introduction of irregularity management in public sector organisations is an important tool for PFB Heads to monitor the FMC system, further optimise PFB operations and reduce the risk of misappropriation of public funds.

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

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

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

In 2022, most PFBs (93.50%) had no confirmed suspicion of irregularities. 6.50% of PFBs reported having confirmed irregularities, of which 67% were resolved inside the PFBs, 1% outside the PFBs and 32% both inside and outside the PFBs.

For detailed information on the results of irregularity management (in %), please refer to Table 3 within [Annex 2 – Indicators of the status of the FMC system](#_Прилог_3._Приказ).

### 2.1.8 Reviewing the Quality of the FMC System

By reviewing the quality of the FMC system, compliance with the legal framework is checked and the objectivity of the self-assessment carried out is evaluated, i.e. how the internal controls work and how committed the organisation is to achieving the objectives.

The purpose of observing the quality of the FMC system is to evaluate the FMC system in place and to assist the PFBs in meeting the international standards of internal control in an appropriate and fit-for-purpose manner, i.e. to provide assurance that the FMC system at the selected PFBs has been established and is functioning properly in accordance with the principles of the COSO framework.

During 2022, CHU independently began testing the existing guidelines and methodology for observing the FMC system (hereafter: review) by conducting a pilot observation. Due to the pandemic, the review planned for 2020 was postponed and conducted in early 2022. For this reason, two cycles were conducted in 2022 to observe the quality of the FMC system. The first observation cycle covered 2020 and included two PFBs (reported in the CAR for 2021), while the second cycle covered six PFBs. The following are the basic considerations and main conclusions of the CHU staff that led to the change in the FMC report form.

The review was carried out at the following PFBs:

- the Municipality of Mali Zvornik,

- the Municipality of Aranđelovac,

- the Municipality of Sokobanja,

- Special Rehabilitation Hospital Banja Koviljača,

- Special Rehabilitation Hospital “Bukovačka Banja”,

- Special Hospital for Non-Specific Lung Diseases “Sokobanja”.

In selecting the PFBs, the municipalities were chosen in view of the importance of the LSGs, but also because as DBBs they also have a supervisory role in relation to the PFBs under their jurisdiction. On the other hand, the selection of the special hospitals took into account that they are IBBs, their importance for health tourism, i.e. for the rehabilitation of the population, as well as for the development of spa tourism. The mutual conditionality of the quality of the work of municipalities and special hospitals is also reflected in the development of health resort tourism and the revenues generated by it, which, among other things, achieves the goals of both municipalities and special hospitals.

Taking into account the individual results and conclusions reached during the observation, it can be said that the FMC system is at a satisfactory level at the current stage of development in the observed PFBs. Parts of the system were identified to which management should pay more attention and react to possible weaknesses in time to further develop and improve the FMC system. The quality observation also identified certain weaknesses and deficiencies in the PFBs observed, in the areas of control activities, risk management and human resource management, on the basis of which certain measures were proposed in individual reports to further improve the system.

During the observation, it was noticed that management had a positive attitude towards good financial management and that the majority of managers have a high sense of responsibility. “The tone at the top” of PFBs aims to achieve the objectives by improving the quality of internal controls.

Although the importance and purpose of implementing the FMC system is recognised by management and some of the staff, there is a need to involve all staff in the process to work together to further improve and develop the system.

With regard to the Control environment element, it was found that in the organisations observed, a clear organisational structure and reporting lines were adequately established and competencies and responsibilities were defined and assigned. However, it was noted that these needed to be updated in a timely manner and supplemented with documented procedures as needed.

The management of human resources is particularly important considering that institutions face the challenge of maintaining a stable number of staff in key positions with narrowly defined skills, as well as recruitment and retention policies in general. To further strengthen the control environment component, it is necessary to establish the criteria and procedures for evaluating the work performance of staff in each PFBs and provide for reward mechanisms based on work performance. A sufficient number of quality and competent staff is the basis for successful and quality work performance, and in this sense, a facilitating circumstance for easier management and strengthening of staff capacity in the following period should be the focus for the observed PFBs.

Risk management is closely linked to the defined objectives of the organisation. In order to successfully attain the objectives of the organisation, it is necessary to put in place such a system to identify, assess, analyse and ultimately eliminate risk as an adverse event and threat to the achievement of the organisation's objectives. The assessment of this component in the PFBs where the quality of the FMC system was observed suggests that it is at different stages of establishment - from not established at a satisfactory level, to PFBs where it is partially or mostly established, to those where it is established at a satisfactory level. Among the observed PFBs, there is an awareness of the importance of risk management, especially among those whose strategic objectives are defined in valid public policy documents. Risk management should be focused on in the coming period not only in the observed PFBs but also in the CHU by improving the way this component is presented to the PFBs.

Control activities in the observed PFBs are established at a satisfactory level and include a number of different activities such as approvals, authorisations, reviews, adjustments, operational success (performance) reviews, asset protection and task sharing.

In the case of specialised hospitals, it was also recommended that medical and non-medical processes be combined in the FMC system so that all business processes can be viewed in one place.

The objective of review the quality of the FMC system is not to review all the details in the business processes, but rather to determine whether the written procedures serve as a good basis for the implementation of the FMC system. Verifying that the procedures are consistent with the way they are applied in practise is not part of this review.

After having reviewed the documents and during the interview, it was found that the management of the observed PFBs had a positive attitude towards the flow and exchange of information within the organisation as well as towards third parties. Internal and external reporting requirements (on the exercise of powers and completed transactions, in relation to supervision, etc.) were recognised.

Monitoring and evaluation refer to the implementation of mechanisms to monitor the FMC system, i.e. assessing the adequacy and efficiency of its functioning. It is necessary for the organisation to a) design and conduct assessment activities continuously and/or periodically and b) analyse and communicate observed weaknesses in a timely manner and then monitor the implementation of corrective actions.

It can be noted that this component is at a satisfactory level, considering that a monitoring and reporting system were established at both PFBs, especially in the context of risk management through the work plan and work programme. Most of the observed PFBs have established the function of IR, but it is necessary to work on its further improvement (filling vacancies, training internal auditors, etc.), as the IA function is of great importance for monitoring and control.

During the meeting with the representatives of the observed PFBs, it was noted that the management was familiar with the state of internal controls and had a developed awareness of the importance of internal controls for the functioning of the organisation. A monitoring and reporting system were established by the management and the management of the observed PFBs continuously undertook activities and measures to monitor and develop the FMC system, and it is necessary to do so systematically and regularly.

The assessment of the quality of the FMC system is still a relatively new function introduced by the PFBs. Nevertheless, it has proven to be good practise, especially when it comes to feedback on the use of methodological materials prepared by the CHU. For all the benefits of the function of reviewing the quality of the FMC system, the exchange of experience between the PFBs should not be neglected either.

The review revealed that in order to further improve the FMC system at PFBs, it is necessary to hold regular meetings of the members of WG on the implementation and development of the FMC system to ensure continuous awareness and promote the exchange of knowledge and information in the field of FMC in order to further develop the system of internal controls. It is also necessary to regularly update the documents on the implementation and development of the FMC system. It is desirable that maps of business processes be used as a tool in the implementation of internal controls. Even if the FMC system is formally established, it is necessary to create (and regularly update) the AP. PFBs must also consider the link between strategic and operational objectives, i.e. clearly separate and properly define the strategic and operational objectives in the relevant documents. There is a need to strengthen the technical capacity of all staff.

The review also found that the previous form of the FMC report was complex and not sufficiently clear for the PFBs. The insufficient understanding of the importance of completing reports, i.e. conducting the self-assessment, among the PFBs has a negative impact and slows down the further development of the PIFC.

One of the main conclusions from the analysis of the conducted review is that there is a need to improve the methodology of reviewing the quality of the PIFC system as well as to simplify the form of the PIFC report. The analysis also revealed the need to organise training/information seminars where PFBs will explain the meaning and importance of reporting on the FMC system (internally and externally). For the reporting period observed, training and changes to the FMC reports were conducted/implemented, the methodology was improved and the process of reporting and analysis of the whole PIFC system was improved.

## 2.2 Internal Audit

### 2.2.1 Scope of Internal Audit

The IA report form contains general data on beneficiaries of public funds, data on the IA unit and internal auditors, on the application of standards and the methodology of the work of IA, proposals for the development of the IA system and an overview of the audit engagements performed for the provision of audits with the number of recommendations made for specific types of recommendations as well as the number of audit engagements performed for the provision of advisory services. For the year 2022, the form of the IA report has not changed fundamentally compared to last year.

According to the processed data, a total of 1944 PFBs submitted an IA report for the year 2022. This section of the report shows the scope of IA analysed in the most important PFBs[[13]](#footnote-13), in terms of the budget they have and the number of staff. The scope of IA is primarily analysed according to the scope of the budget of a given category of FMC. It should be noted that the official list of FMC of the Treasury Administration, in some cases includes the accounts of individual institutions and public sector organisations in addition to the organisational parts, so that the analysis of the scope of IA cannot be based only on the number of FMCs included in the said list.

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

**Table 3.** Scope of IA function per PFB categories

| **PFBs category** | **Total number of PFBs by category** | **Number of PFBs with functional IA** | **% of PBFs with functional IA of the total number of PBFs** | **% of the coverage of the budget by functional IA per PFB category** | **Number of PFBs that have a full IA unit with at least three auditors** | **% PBFs with the staffed IA unit** |
| --- | --- | --- | --- | --- | --- | --- |
| **Ministries** with constituent administrative bodies[[14]](#footnote-14) | 29 | 19 | 98% | 94% | 11 of 29 mandatory | 38% |
| **Other DBBs at the central level[[15]](#footnote-15)** | 70 | 26 | 37% | 2 of 7 mandatory | 28% |
| **MSIOs** | 4 | 4 | 100% | 100% | 3 of 3 mandatory | 100% |
| **AP Vojvodina** | 1 | 1 | 100% | 100% | 1 of 1 mandatory | 100% |
| **Cities[[16]](#footnote-16)** | 28 | 23 | 82% | 93% | 8 of 28 mandatory | 28% |
| **Municipalities[[17]](#footnote-17)** | 117 | 31 | 26% | 31% | - | - |
| **PEs at the central level of the RS** | 39 | 28 | 72% | 84% | 10 of 14 mandatory | 71% |
| **Total:** | 288 | 132 | 46% |  | 35 from 82 | 43% |

The DBBs at central level[[18]](#footnote-18) with an established function IA unit cover about 94% of the total planned expenditure and budget expenditure of DBBs of the RS for 2022. The mentioned budget also includes the budgets of the IBBs, which are subordinate to the DBBs at central government level. In addition, as in the previous reporting period, the Ministry of Foreign Affairs, the Ministry of Environmental Protection, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography and the Ministry of Rural Welfare, as well as the Ministry of Science, Technological Development and Innovation, the Ministry of Tourism and Youth, the Ministry of Information and Telecommunications and the Ministry of Public Investment formed at the end of 2022 still do not have a functional IA unit.

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

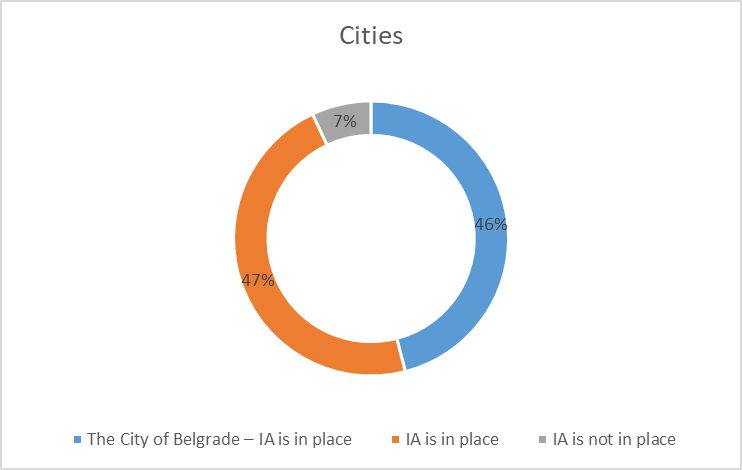
APV has established a functional IA unit which performs the functions of IA DBBs and IBBs APV.

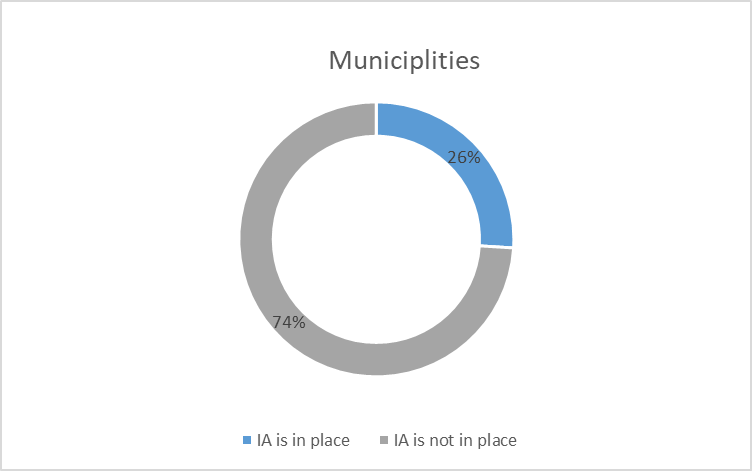
When it comes to LSG group, which consists of cities and municipalities, the conclusion is that the situation in cities is significantly better than in municipalities. Twenty-three of a total of 28 cities[[19]](#footnote-19) have a functional IA, which is an increase compared to last year accounting for 93% of the total expenditures of this group in 2022. An increase was observed in the municipalities, so that there are 31 municipalities with functional IA, which together cover 26% of the planned revenue for this PFBs category in 2022.

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

The following figures show the coverage of the planned budget in 2022 by the IR function.

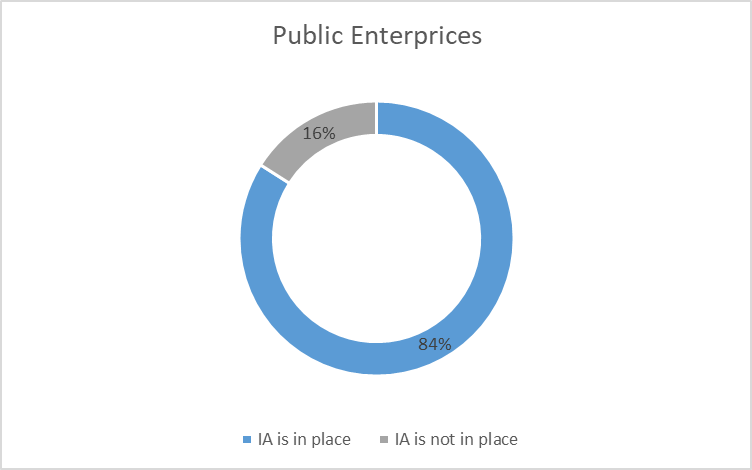
**Figures 6 and 7** Coverage of budget expenditures of cities and municipalities by the IA function in 2022

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Of the total of 39 PEs and capital companies at central level in Serbia included in this analysis that perform a public interest activity subject to the Law on Public Enterprises, 28 have a functional IA, which represents 72% of the total in this group, and the total revenues coverage for 2022 of this category is 84%, as shown in Figure 8.

**Figure 8** Coverage of total revenues of PEs by the IA function in 2022



Looking at the group of the most important PFBs, Table 3 shows, where applicable, the status of IA units in PFBs that are required to have an independent internal audit function with at least three auditors under the current regulations of IA. Considering that 57% of the IA units set up do not have a minimum number of internal auditors, their engagements cannot cover a sufficient number of business areas that fall within the organisation's remit.

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

* in the category of MSIOs and APV, there is a prescribed number of internal auditors;
* in the category of ministries and administrations, 38% have a staffed IA unit with at least three auditors. This year, the number of filled IA positions in this category has decreased by 10% compared to last year. Nine ministries do not have a single internal auditor, and four from this group were newly established at the end of 2022;
* according to the IA reports received, 82% of cities have a functioning IA, which is an increase compared to the previous year. In line with provisions of Article 6, paragraph 1 of the IA Rulebook, cities are obliged to have a fully staffed IA unit, but 28% do not fulfil this obligation,;
* In the category of PEs at central level, 14 have over 250 employees and are required to fully staff their IA unit, however, only 10 of them have met this requirement (71% of the group that is required to have a fully staffed IA unit), still, this is a better result than last year;
* other DBBs, as well as municipalities, do not have a satisfactory coverage by functional IA.

[Annex 3 – Overview of PFBs that Established Internal Audit](#_Прилог_3._Преглед_1)  provides a detailed overview of the number of beneficiaries by different PFB categories in the group of PFBs with established IA.

### 2.2.2 The Internal Audit Function

In 384 PFBs, IA is normatively implemented and it is functional in 238. A functional IA is one that has conducted at least one audit engagement during the reporting period.

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

The figure 9 the number of annual reports submitted, and IA functions established at PFBs. For 2022, the number of IA reports has increased by 18% compared to 2021. This speaks to the significant results achieved in raising PFBs’ awareness of the reporting requirement. The increase in submission of annual reports is mainly in the category of IBBs, both at the central and local level, as

well as among RHIF beneficiaries, i.e. health and pharmacy facilities.

[Annex 3 - Overview of PFBs that established internal audit](#_Прилог_4._Преглед)  provides a detailed overview of the number of beneficiaries by different PFB categories in the group of PFBs with established IA.

**Table 4.** Number of PFBs in Serbia that submitted reports and established IA with systematised and staffed internal auditor positions in 2022

| **PFBs** | **Reports submitted** | **Normative IA** | **Functional IA** | **Classified working posts** | **Post filled out** |
| --- | --- | --- | --- | --- | --- |
| **Central Level** | 1315 | 211 | 136 | 507 | 353 |
| **Local level** | 629 | 173 | 102 | 286 | 205 |
| **Total in the RS** | **1944** | **384** | **238** | **793** | **558** |

**Figure 10** The number of systematised and filled posts in IA at PFBs in the period 2020 - 2022.

Figures 9 and 10 show the total number of IA functions established and the number of IA posts systematised and filled in the PFBs in 2020, 2021 and 2022.

Based on the data presented, it can be seen that there is a 7% growth in the normative establishment of the IA function in 2022 compared to the previous year. In addition, 238 PFBs have

established the IA function, which is a 13% increase compared to 2021.

With 238 PFBs having established a functional IA, out of 558 filled positions for IA, 328 internal auditors have obtained an CIA certificate in the public sector, representing a certification rate of 58.78%.

**Figure 11** Percentage of internal auditor certification by year

It can also be noted that the number of systematised posts increased by 9% and the number of filled posts increased by 4% in 2022 compared to 2021. Overall, all indicators show a positive trend in the development of the IA function in the past period. However, a slowdown in the growth of both the total number of systematised and filled posts can be observed, the main cause of which is the natural attrition of internal auditors and the weak inflow of new staff. A decrease in the number of internal auditors was recorded in the categories of ministries, MSIOs and other IBBs at central level.

Retirements and transfers to other posts are the main causes of the decline in the number of internal auditors in the public sector.

**Table 5.** Total number of PFBs that have normatively established IA with systematised and filled posts in 2020, 2021 and 2022

|  | **Number of PFBs with normative IA** | **Number of PFBs with functional IA** | **Classified working posts** | **Post filled out** |
| --- | --- | --- | --- | --- |
| **Total in the RS in 2020** | 324 | 202 | 714 | 526 |
| **Total in the RS in 2021** | 359 | 211 | 728 | 538 |
| **Total in the RS in 2022** | 384 | 238 | 793 | 558 |

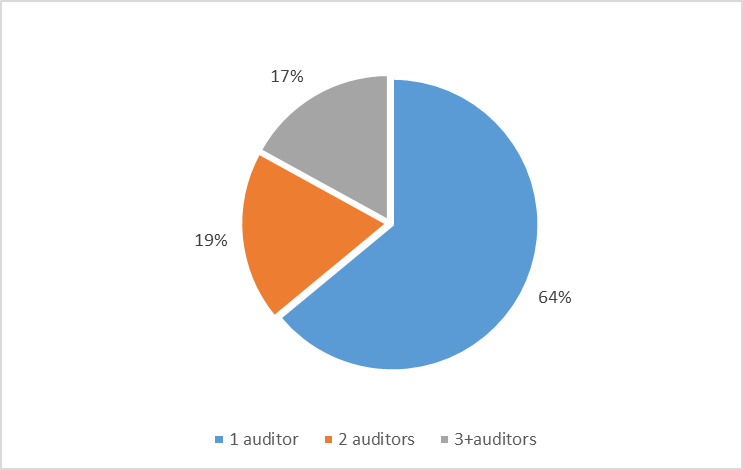
As shown in Tables 5 and 6, in the 384 PFBs where the IA function is normatively established, a IA unit has been formed in 32%,

an employee has been systematised - an internal auditor - in 59%, the IA function has been established in 5% of the PFBs on the basis of an agreement with other PFBs that have a IA unit, and a joint IA unit has been formed or persons have been contracted to carry out audits in 4%. It can be observed that the dominant way of setting up the IA function is through the employment of an internal auditor, and the setting up of IA through an agreement on auditing by the IA unit of another PFBs or an agreement on the establishment of a joint unit is not sufficiently represented.

**Table 6.**  Number of PFBs with normatively established IAs, by IA setup in 2022

| **IA setup modality** | **Number of PFBs** |
| --- | --- |
| IA Unit | 124 |
| Agreement on the implementation of IA by another PFB | 20 |
| Joint IA unit | 1 |
| Internal auditor | 225 |
| Other (outsourcing internal auditors under a service contract) | 14 |
| **Total:** | **384** |

**Figure 12** Percentage of PFBs with established IA function, by number of auditors in 2022



A total of 211 PFBs have a functional IA in place. In the mentioned figure, 64% of PFBs have established the IA function with one internal auditor, 19% with two internal auditors, and 17% with three or more. Compared to the previous year, there was an increase in the category of IA units with two auditors, generated by the decrease in the number of IA units with three auditors, which speaks to the process of difficult recruitment of staff, either due to retirement, transfer to other positions or leaving the organisation.

The most frequently stated reasons for having only one internal auditor to carry out the IA work[[20]](#footnote-20) or for not filling internal auditor positions are restrictions on new recruitment in the public sector, lack of highly qualified staff, low wages in the public sector, competition from the private sector and natural staff attrition.

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

In the 5% of the PFBs that have a functionally established IA, the employed internal auditors also perform other tasks at the behest of the Heads of the PFBs. The reason for this is mainly the lack of staff at other workplaces and the increased workload. This is neither in line with the IA Rulebook nor with the standards of IA and shows that the Heads of these PFBs do not sufficiently understand the role and importance of IA.

The requirements from Standard 1300 - Quality Assurance and Improvement Programme cannot usually be met because the IA units are not adequately staffed.  
 In 30% of the established IA units, the manager of the IA unit has developed a programme to assure and improve the quality of IA activities, and an internal assessment is carried out by 40% of the IA units. Vacant posts, i.e. an employee in the IA unit and the vacant position of the Head of the IA unit, were cited as reasons for not implementing the programme to ensure and improve the quality of IA activities and internal evaluation of IA.

The IA Rulebook stipulates that the Head of the PFBs can form an audit committee as an advisory body for internal control and internal audit issues. Since a specific law requires the PEs to form an audit committee, all audit committees formed so far have been formed in the public enterprises. The total number of audit committees formed is in this category. The audit committee as an advisory body for IA issues has been established in 24 PEs and companies at the central level.

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### 2.2.3 Planning and Evaluation of Performance

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

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

### 2.2.4 Overview of Performed Audits

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

**Table 7.** Number of planned, follow-up, implemented and unimplemented audits in 2022, by type of PFB

| **PFBs** | | **Number of audits in 2022** | | | |
| --- | --- | --- | --- | --- | --- |
| **Planned audits** | **Follow-up audits (on demand)** | **Implemented audits** | **Unimplemented audits [[21]](#footnote-21)** |
| Central Level | Ministries with administrative bodies in the composition | 97 | 1 | 93 | 4 |
| MSIOs | 48 | 1 | 47 | 2 |
| Other PFBs | 63 | 3 | 57 | 9 |
| IBBs | 94 | 33 | 46 | 81 |
| PEs at the central level | 186 | 9 | 163 | 32 |
| Other PFBs (excluding PEs) | 101 | 12 | 100 | 13 |
| Beneficiaries of RHIF | 123 | 13 | 68 | 68 |
| **Total** | **712** | **72** | **574** | **209** |
| Local level | DBBs LSG | 277 | 50 | 224 | 103 |
| IBBs LSG | 0 | 0 | 0 | 0 |
| Other PFBs (PUCs, etc.) whose founder is the local government | 202 | 16 | 150 | 68 |
| **Total** | **479** | **66** | **374** | **171** |
| **Total in the RS** | | **1191** | **138** | **948** | **380** |

In 2022, according to the reports submitted on the work of IA, a total of 1191 audits were planned, 138 follow-up audits were started at the request of the Head of PFB, 948 audits were carried out, while 380 planned audits were not carried out.

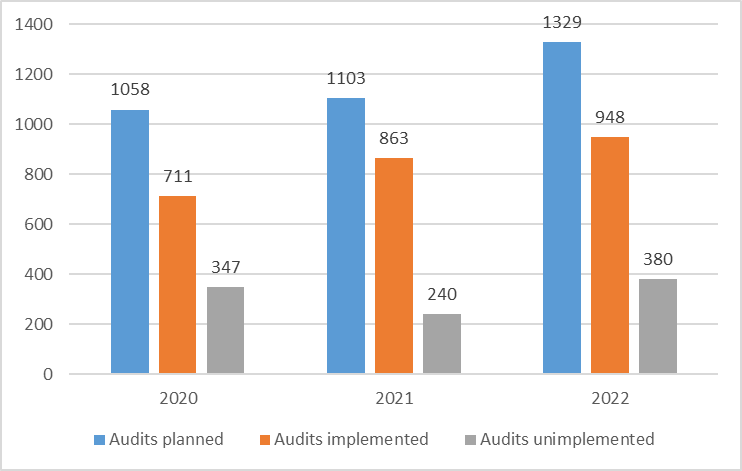
**Table 8.** Overview of the number of audits by year

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Total number of audits in 2020, 2021 and 2022** | | |
| **Planned audits [[22]](#footnote-22)** | **Implemented audits** | **Unimplemented audits [[23]](#footnote-23)** |
| The total in 2020 | 1058 | 711 | 347 |
| The total in 2021 | 1103 | 863 | 240 |
| The total in 2022 | 1329 | 948 | 380 |

As shown in Figure 13 and Table 9, there has been a further increase in planned audits , up 17% in 2022 compared to 2021. On the other hand, the growth in the number of audits taken is 10%. The disproportion between the above growth rates also led to a 58% increase in the number of audits not taken.

A significant proportion of the number of audits not performed indicates that the planning segment of IA 's work should be expanded, especially among the IBBs group, RHIF and PEs/PUCs beneficiaries at the local level, and other DBBs at the central level, where the predominant way of setting up IA is to employ an internal auditor.

**Figure 13** Implementation of the annual audit plan

****

**Table 9.** Relative changes in the number of audits compared to the previous year over the tree-year period

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Planned audits** | **Implemented audits** | **Unimplemented audits** |
| **2020** | 5% | -9% | 51% |
| **2021** | 4% | 21% | -31% |
| **2022** | 17% | 10% | 58% |

In relation to the total planned audits, a total of 28% of the audits were not carried out. The reports identify the following most common reasons for the deviation from the execution of the annual work plan of IR in 2022:

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

The increase in the percentage of unimplemented audits compared to 2021 indicates unrealistic plans for certain groups of PFBs, therefore continuous training in this area is needed.

### 2.2.5 Status of Internal Audit Recommendations

The internal auditors made a total of 6,488 recommendations to improve business processes and reduce identified risks to an acceptable level. The number of recommendations made has increased by approximately 5% compared to the previous year, which follows the trend of increasing the number of functional IA units[[24]](#footnote-24).

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

| **Area of recommendations[[25]](#footnote-25)** | | **Number of recommendations in 2020** | **Number of recommendations in 2021** | **Number of recommendations in 2022** |
| --- | --- | --- | --- | --- |
| 1. | **Internal Rules and Procedures** | **↓**2761 | ↑3169 | ↑3195 |
| 2. | **Planning** | **↓**240 | ↑327 | **↓**265 |
| 3. | **Incomes and revenues** | **↓**113 | ↑136 | ↑142 |
| 4. | **Public procurement and contracting** | **↓**450 | **↓**405 | ↑495 |
| 5. | **Employees, salaries and fringes** | ↓377 | **↓**363 | ↑494 |
| 6. | **Payments and transfer of funds** | ↓159 | ↑194 | **↓**163 |
| 7. | **Accounting records and financial reporting** | ↑678 | **↓**584 | ↑708 |
| 8. | **Information system** | ↓190 | ↑272 | **↓**226 |
| 9. | **Recommendations of the main business activity of PBFs** | ↓572 | ↑693 | ↑800 |
| **TOTAL** | | **↓5540** | **↑6143** | **↑6488** |

In the structure of the area of recommendations made, there is an increase in recommendations from the core activity of the PFBs, which indicates that the IA is increasingly supporting management in the planning and implementation of audits in all business areas and that the focus of the IA's work is gradually shifting from support processes to operational business processes.

**Table 11.** Implementation rate of recommendations, by PFB category, in 2022

| **#** | **PFBs** | **Number of recommendations** | **Recommendations implemented**  **(%)** | **Recommendations not yet past the implementation deadline (%)** | **Unimplemented recommendations[[26]](#footnote-26)**  **(%)** |
| --- | --- | --- | --- | --- | --- |
| 1 | Ministries with administrative bodies in the composition | 1104 | 52% | 24% | 24% |
| 2 | MSIOs | 180 | 85% | 15% | 0% |
| 3 | Other PFBs | 183 | 38% | 51% | 11% |
| 4 | IBBs | 102 | 58% | 28% | 14% |
| 5 | PEs at the central level | 1386 | 75% | 17% | 8% |
| 6 | Other PFBs (excluding PEs) | 480 | 33% | 45% | 22% |
| 7 | Beneficiaries of RHIF | 360 | 55% | 24% | 21% |
| **Total at the central level** | | **3795** | **53%** | **25%** | **22%** |
| 1 | DBBs LSG | 1330 | 54% | 29% | 17% |
| 2 | Other PFBs (PUCs, etc.) whose founder is the local government | 453 | 55% | 25% | 20% |
| **Total at the local level** | | **2693** | **55%** | **28%** | **17%** |
| **Total in the RS** | | **6488** | **54%** | **27%** | **19%** |

Table 11 shows the recommendations provided and implemented in 2022. Of the total 6488 recommendations made in 2022, all PFBs implemented a total of 3527 recommendations, representing 54% of the total recommendations made. Since this indicator speaks of the implementation of recommendations in the same reporting period in which the recommendations were made, it is also necessary to take into account recommendations made at the end of the reporting period whose implementation will objectively only be possible in the next reporting period The percentage of recommendations whose implementation deadline has not yet expired is 27%. Based on the data provided, a total of about 19% of the recommendations have not been implemented, which is similar to last year's percentage. The main reasons for non-implementation of recommendations whose implementation deadline has expired are limited human resources capacity of the auditees, lack of attention in the auditee, lack of time and human resources to implement the given recommendations, insufficient commitment of management and staff, and failure of the auditee to submit reports on implemented recommendations in accordance with the signed plans for implementation of recommendations.

Looking at the individual categories of PFBs, it can be seen that the MSIOs continue to show a positive trend in the implementation of recommendations. Compared to the previous year, the MSIOs' rate of implemented recommendations remained high at 85%. This indicator speaks of MSIOs’ management high awareness of the importance of IA and its reports and recommendations to management and the organisation.

The highest percentage of unimplemented recommendations is found in the category of ministries with constituent administrative bodies, indicating insufficient understanding of the importance of addressing identified weaknesses in business processes. In addition, a new Government with a new structure of ministries was constituted at the end of 2022, so some of the recommendations could not be implemented due to changes in responsibility.

### 2.2.6 Internal Audit Consulting Services

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

**Table 12.** Overview of consulting services provided, by PFB in 2022

| **No.** | **PFBs** | **Number of implemented consulting engagements** |
| --- | --- | --- |
| 1 | Ministries with administrative bodies in the composition | 16 |
| 2 | MSIOs | 0 |
| 3 | Other PFBs | 23 |
| 4 | IBBs | 4 |
| 5 | PEs at the central level | 30 |
| 6 | Other PFBs (excluding PEs) | 21 |
| 7 | Beneficiaries of RHIF | 68 |
| **Total at the central level** | | **172** |
| 1 | DBBs LSG | 42 |
| 2 | IBBs LSG | 0 |
| 3 | Other PFBs (PUCs, etc.) whose founder is the local government | 32 |
| **Total at the local level** | | **74** |
| **Total in the RS** | | **246** |

**Table 13.** Overview of consulting services provided in the 2020-2022 period.

|  |  |
| --- | --- |
| **Year** | **Number of completed engagements** |
| 2020 | 193 |
| 2021 | 355 |
| 2022 | 246 |

Based on the annual reports submitted, 246 IA consulting engagements were conducted in 2022, a decrease of about 30% from the previous year. The number of consulting engagements has slightly increased in the case of PFBs at central level, while it has halved in the case of PFBs at local self-government level. Considering the fact that the number of IA audits has increased at the PFBs at the local self-government level, these data cannot be considered a negative trend.

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

### 2.2.7 Reviewing the Quality of the Internal Audit Activity Performance

The CHU conducted a quality review of IA 's operations at eight public funds beneficiaries in the period from 1 October 2021 to 30 September 2022. The consolidated report on the IA activity quality review was submitted to the Minister of Finance and published on the website of the Ministry of Finance.

The quality review was performed in the following PFBs:

* Ministry of the Interior,
* Ministry of Public Administration and Local Government,
* Ministry of Agriculture, Forestry and Water Management,
* National Employment Agency,
* Pension and Disability Insurance Fund
* Republic Health Insurance Fund.

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

The peer review of the quality of the Ministry of Public Administration and Local Government IA work was carried out by a team in which the CIA in the public sector of NEA, RHIF and “Infrastrukture železnice Srbije” a.d. participated. The work of the team is coordinated by CHU.

In the organisations included in the overview of the quality of IA work, the function of IA has been defined by setting posts for IA in the regulations on internal organisation and systematisation of posts in accordance with the IA Rulebook. In all of them, there are systematised IA units with three or more internal auditor posts, four of which have at least three posts for IA and two of which have only two posts. The reason for unfilled posts is the lack of suitable staff. Of the systematised 59 posts of internal auditors, 40 have been filled, all of whom have obtained the title of CIA in the public sector, except for one who is in training to become an CIA in the public sector.

Last year, the manager of one IA unit terminated employment because he met the conditions for retirement. The post of this manager had not been filled by the end of the report. In addition to the internal auditor mentioned above, four others will be eligible for termination of employment due to retirement in the next two years. It is necessary for the PFBs to provide an employee for the IA affairs within the limits of their staffing possibilities in order to ensure the continuity of this function.

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

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

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

The annual IA plans are aligned with the IA strategic plans and have been approved by the Head of the PFBs.

In the individual units of IA, the annual work plans were adjusted due to changes in the staff structure (departure of experienced internal auditors and recruitment of new auditors undergoing training) and longer absences of staff (sea leave). Consulting audit engagements, which make up a large part of the work of IA, were not fully reflected in the plans.

In preparing the plans, the individual units of IA did not fully document each step and the availability of the adopted plans to senior staff was not always possible. When drawing up the plans, consultations with all senior managers and the planned time for carrying out consultancy assignments must be indicated. In this way, the awareness of the work of IA is raised to a higher level within the organisation and contributes to strengthening the awareness of all managers and employees of the need to implement all activities in the internal control system.

For each assurance engagement performed, internal auditors prepare working papers that are kept in the audit files, mostly in paper form, but some auditors also prepare them in electronic form. Some IA units have been found to have deficiencies in linking working papers, mostly when audit files are created in mixed paper and electronic form. The storage of audit documents in electronic form is also not fully guaranteed.

Documentation of the planning and implementation of consultations is often not sufficiently structured and there is a lack of accompanying working documents to support the use of audit time. Due to the incomplete documentation of the concluded consulting engagements, inconsistencies are observed in the reports on the work of IA, as the audit time spent on the execution of the IA tasks is not adequately substantiated.

Internal control of the quality of IA's work is carried out through constant supervision by the head of the IA unit and periodic reviews. In IA units with multiple staff members, this procedure is implemented, whereas in units with an insufficient number of internal auditors within the IA unit, this procedure is mostly omitted or only formally implemented (the head of the IA unit is also the auditor who performed the audit) and is not consistently formalised and documented. Part of the IA units have not developed a programme to ensure and improve the quality of work and no regular self-assessments have been carried out.

IA units expressed the need for training in the context of annual plans, but in general terms without naming specific areas. In direct communication, they expressed the need for practical training for performance audits and IT system audits, and also the need for direct exchange of experience with colleagues from other countries. They also pointed out that they were often prevented from attending certain trainings because the organisations' budgets did not include funds for this purpose.

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

* that the PFBs provide a staff member for the IA affairs within the limits of their staffing possibilities in order to ensure the continuity of this function
* document each step in the preparation of the plans and make the adopted plans available to all PFBs’ managers. Indicate in the plans the required auditor/time for the completion of consulting audit engagements, which are largely represented in the work of the IA;
* consistently document completed consulting engagements to confirm that the IA tasks have been carried out and that audit time has been spent;
* consistent implementation of internal control over the quality of IA work.

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

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

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

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

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

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

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

# III ACTIVITIES AND PROGRESS ATTAINED

The CHU represents the third pillar of the PIFC in RS. From an institutional point of view, it is part of the Ministry of Finance and performs the tasks related to the harmonisation and coordination of financial management and control and internal audit in the public sector. At the end of June 2023, the CHU employed 11 staff on indefinite contracts, including the Assistant Minister, while one staff member was employed on a fixed-term contract.

The previous strategic framework, i.e. the PIFC strategy, aimed to build and improve the quality of the FMC and IA systems. During this period, significant results were achieved, many lessons were learned and recommendations from the EC Progress Report for were adopted. In the context of developing a strategic framework for further improvement of PIFC in the public sector of RS after 2020, new planning documents were adopted in agreement with the LPS. The CHU was actively involved in their elaboration from the perspective of the PIFC sector. The focus of the activity is to further improve the application of the PIFC system, i.e. the essence of its functioning and practical application. As far as the implementation itself is concerned, the CHU is either responsible for the implementation or the main partner for all parts related to the PIFC and management responsibility, and therefore reports regularly on the progress in the mentioned areas in the framework of:

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

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

In addition, the CHU regularly monitors the implementation of recommendations from the EC Progress Report for Serbia as well as those from last year's CAR.

According to the EC Progress Report for 2022[[27]](#footnote-27), for Chapter 32, the RS is moderately prepared in this chapter and good progress has been made during this reporting period.

The status of the EC's recommendations as well as more detailed information can be found in [Annex 6 - Recommendations from the EC Serbia Report for 2022](#_Прилог_6._Изјава) of this document.

Regarding the CAR recommendations for the past year, of the 13 recommendations, 7 recommendations have been partially implemented, i.e. implementation is ongoing (53.85%), while 6 recommendations are continuously implemented (46.15%).

Of the total number of PFBs that submitted reports, 73.21% stated that they were familiar with the content of the recommendations to further develop and improve the FMC system in the public sector made in the CAR for the past year. However, the implementation of the recommendations regarding the improvement of the risk management area, the additional allocation of adequate resources for the development and improvement of the FMC system and the regular updating of the APs is not sufficient and further improvements are needed in this area.

The status of the EC's recommendations as well as more detailed information can be found in [Annex 7 - Recommendations from the CAR on PIFC for 2021](#_Прилог_7._Препоруке)  of this document.

## 3.1 Overview of Progress Made in 2022 towards Achieving the Objectives Set out in the Planning Documents

CHU activities focus on strengthening the FMC and IA systems at central and local levels by improving communication with the PFBs. On-site training is provided to raise awareness of the importance of establishing a system of internal controls in all PFBs. The focus will be on the practical application and positive impact of a well-established internal control system. Local governments/cities are provided with advisory support in establishing and improving the FMC system and IA functions. During the past period, special emphasis was placed on training managers on FMC, operationalising the principles of managerial accountability and raising awareness of the importance of IA.

An activity of particular importance during the reporting period, in order to gather information from the field and to obtain a realistic picture of the internal control system, is the review of the quality of the FMC system and the work of the IA units at the PFBs. The important feedback was received for further work and improvement of methodological materials, training and reporting procedures produced by CHU in these areas.

As a result of the field communication with the PFBs and their needs, an improved form of the FMC report for 2022 was prepared. The aim is for beneficiaries to be able to best assess the control system in their organisation and understand the nature and importance of annual reporting.

In terms of capacity building and continuous improvement of internal auditors, CHU, with the support of donor funding, organised renowned trainings in the areas where the greatest training needs were (internal IT audit methods, information systems audits and information security audits).

[For detailed information about the activities under the 2021–2025 PFMR Programme, please refer to the Report on the Implementation of the PFMR Programme for 2022.](https://www.mfin.gov.rs/upload/media/4dj7WT_645a069b51aff.pdf)

***Under Specific Objective 6 of the new PAR Strategy: Accountability and Transparency, two measures aim to change the regulatory-methodological framework and support implementation. The first sets out systemic solutions and the second is specifically dedicated to improving performance management For more detailed information, please refer to [3.2.2 Improvement of the Managerial Accountability Concept.](#_3.2.2_Унапређење_концепта)***

The Programme for Improving Public Policy Management and Regulatory Reform with the accompanying Action Plan for its implementation, provides a timeframe for the introduction of analytical units at national level, as well as support for their introduction through the development of Guidelines for the establishment, job descriptions and required staff competences. Implementation of key activities on the drafting of guidelines for the establishment of the internal units for planning documents (IUPD) based on the Regulation on internal organization and job classification in ministries, special organizations, and government services in order to standardize the description of the scope of work, job titles, as well as job descriptions and required competencies of IUPD staff was planned.

### 

### 3.2.1 Improvement of the PIFC Regulatory and Methodological Framework

In 2022, preparations continued for the amendment of the IA rulebook The proposed amendments aim to consolidate the IA units at the first line of DBBs, i.e. according to the sectoral principle both at the central government level and at the local level, at the level of local self-governments, with many small beneficiaries covered by the IA function (small in terms of the number of staff and the budget available to them). The consolidation of IA units at the front line ensures the quality of work and compliance with IA standards. After the risk assessment of the process, the relevant DBBs units audit their beneficiaries in the sector or local self-government, so that they do not have to audit all beneficiaries every year, which ensures the saving of resources. This also improves the position of internal auditors in the organisation and facilitates mutual exchange of experience and training.

The amendments to the certification rules expand the circle of mentors for potential candidates and shorten the duration of training for internal auditors, contributing to a more efficient and faster certification process for internal auditors in the public sector.

### 3.2.2 Improvement of the Managerial Accountability Concept

This is a fundamental principle in the PIFC and was introduced into the system by the BSL and elaborated in detail in the FMC Rulebook. It also represents an important pillar of the public administration reform.

Within the framework of the Operational Group for the Improvement of Managerial Accountability, led by GENSEC, work over the past period focused on developing a comprehensive situation analysis and guidelines (roadmap) for defining systemic solutions in the legal and institutional framework of RS in relation to managerial accountability.

Based on a previously prepared analytical report with recommendations, a draft roadmap for managerial accountability was prepared in 2022. The first draft was prepared following the “Roadmap for the Improvement of Managerial Accountability” workshop held in the middle of last year as part of the GOPA project and in collaboration with the Operational Group for the Improvement of Managerial Accountability led by GENSEC. Afterwards, numerous consultations took place with the Operational Group and other relevant institutions, and the draft roadmap was improved.

As improving managerial accountability is a systemic and complex issue, it also needs to be aligned with the policy level, which will be formalised through the government's WG dedicated to this issue, which is currently being established. In the meantime, some of the recognised important activities under the existing draft roadmap are being prepared for implementation.

### 3.2.3 Trainings

In October 2022, CHU organised and conducted a basic training for FMC, which was attended by 97 participants.

As for the one-day trainings for managers organised and conducted by CHU at the request of PFBs, three one-day workshops were held in 2022, namely:

* Supreme Court of Cassation (training in two phases - with a total of 26 participants);
* Faculty of Medicine, University of Belgrade (heads of organisational units - 12 participants) and
* Institute of Nuclear Sciences “Vinča” (30 participants).

During 2022, the development of a new, more modern concept of basic training organised by the CHU began.

In order to disseminate the knowledge of public sector managers and staff in the field of FMC, the CHU, with the support of the “Platform for Responsible Public Finance Management” project (UNDP, SIDA), organised and conducted 4 two-day workshops at the local level. The workshops were attended by 164 management representatives of LSGs, institutions and public enterprises whose founders are cities. Accordingly, the trainings were held in the following LSGs:

* The City of Čačak – 23 participants;
* The City of Novi Pazar – 54 participants;
* The City of Prokuplje – 25 participants;
* The City Loznica – 42 participants, as well as in
* the Municipality of Vrnjačka Banja - where the participants were also managers from other municipalities - 20 participants (municipalities - Vrnjačka Banja, Kuršumlija, Ćuprija, Bajina Bašta, Požega, Vlasotince, Leposavić, Priboj, Gornji Milanovac, Brus, Veliko Gradište, Kosovska Mitrovica).

In the last week of February and the first week of March 2022, a basic training was organised in IA for 47 participants as part of the training of internal auditors to acquire the title of CIA.

For the purpose of continuous professional development of CIA in the public sector, the CHU has continued the practise of providing relevant training. With the support of the “Public Finance Reform - Agenda 2030” project implemented by GIZ, trainings (webinar and hybrid workshop) were conducted on “Methodology of the internal IT audit”. Two webinars were held in May and two “hybrid workshops” in December, which were a continuation of the previous workshop (at an advanced level). For the hybrid trainings, online participation was possible in addition to direct participation. The total number of participants of the webinar and the “hybrid workshop” is 283 CIAs.

In addition to theoretical knowledge, participants also received practical guidance on how to conduct internal IT audits by applying audit techniques to a practical example using documentation from a simulated organisation.

Furthermore, the cooperation between CHU and NAPA continued in 2022, so that a number of trainings from the PIFC area were again offered as part of the NAPA training programme for managers and staff In line with the nominated programme, a number of trainings were conducted by NAPA in 2022, namely:

* Financial Management and Control - online training attended by 143 participants;
* Internal control tools and risk management – 37 participants.

The CHU helped organise a SIGMA webinar in July for public sector auditors on “Good Governance - Managerial Accountability”. Topics such as the need for effective delegation of decision-making power, the link between the budget and administrative structures, and the implementation of performance measurement mechanisms were discussed with key stakeholders from the Western Balkans and the EU.

### 3.2.4 Certification of Internal Auditors

During 2022, two examination cycles were held, during which a total of 44 candidates attained the title of certified internal auditor in the Civil Service. The examinations were held in April - (26 candidates) and December 2022 - (18 candidates).

### 3.2.5 Continuous Professional Development of Certified Internal Auditors in the Public Sector

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

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

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

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

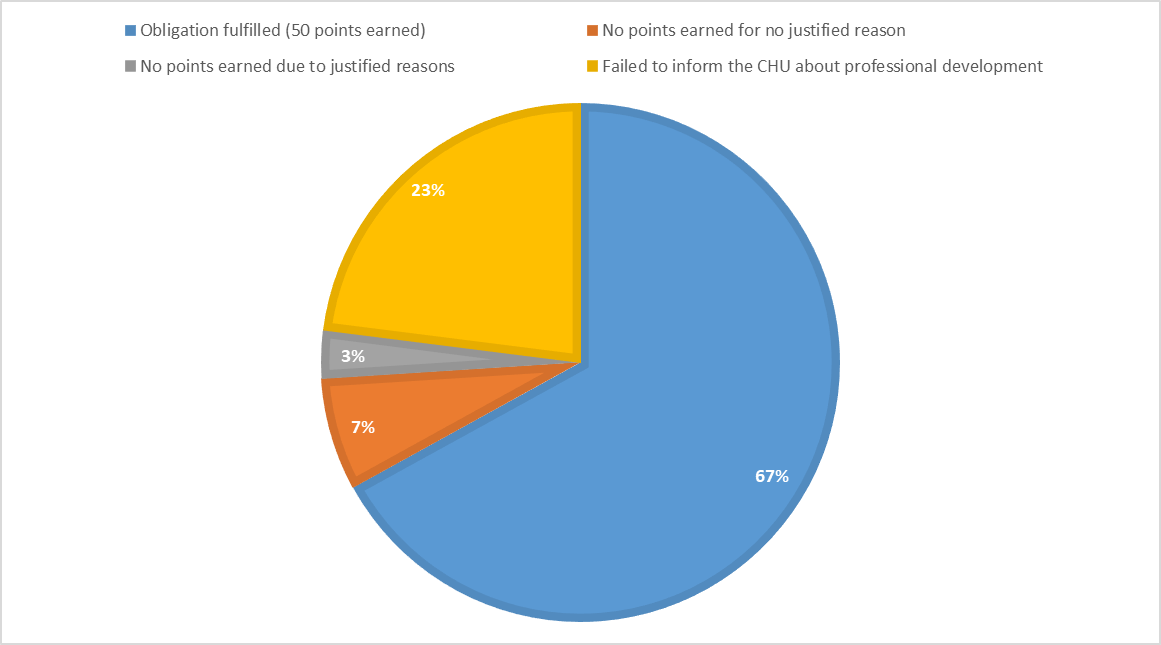
Since its inception, the CHU has certified 550 CIAs. The total number of public sector CIAs performing their IA duties by 31 December 2022 is 328.

For 2022, 268 public sector CIAs have informed the CHU for professional development (Form 1, 2 or 3). Of this number, 254 public sector CIAs are actively performing IA tasks.

Of this number of active public sector CIAs (254), 221 have fulfilled the continuous professional development obligation, i.e. they have accumulated at least 50 points in one year. 33 of them did not meet the required number of points, with 9 of them stating that they could not meet this obligation in the prescribed manner. 74 CIAs in the public sector did not comply with the obligation to report professional development to the CHU.

Information on change of employer was submitted by 3 public sector CIAs.

**Figure 14** Presentation of the CIA's professional development in the public sector for the year 2022



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

### 

### 3.2.6 Reviewing the Quality of the PIFC System in PFBs

Quality reviews of the FMC system and of the performance of IA units at PFBs have become a regular activity of the CHU to which significant resources are devoted. Given that they provide insights that are significant for FMC and IA, these quality reviews are presented in this report ([2.1.8 Reviewing the Quality of the FMC System](#_2.1.9_Сагледавање_квалитета) and [2.2.7 Internal Audit Activity Performance Review](#_2.2.7_Сагледавање_квалитета)). Apart from the specific recommendations for the PFBs in which the quality of the work of the IA and the FMC system was reviewed, both activities are valuable for the CHU staff, who in direct contact with the PFBs can see more clearly the scope of their educational activities and can convince themselves on the spot of the objectivity of the reports they receive from the PFBs.

### 3.2.7 International Cooperation and Projects

As active members of the Public Expenditure Management Peer-Assisted Learning network, which is a relevant platform for monitoring the implementation of PIFC Standards, Principles and Good Practises (PEMPAL) under the auspices of the World Bank, CHU staff participated in the plenary session of the IA (IAKOP) section. A joint meeting of IAKOP, PEMPAL and the Institute of Internal Auditors from Belgium addressed news on IA in the public sector.

An important partner of the CHU is also SIGMA, with which the cooperation continued in 2022. In addition to its support, SIGMA carried out an assessment, i.e. a monitoring of the reform of public administration, which also assessed the situation in the PIFC.

Significant support in the area of PIFC is provided by the donor community, which continuously supports the implementation of activities in the area of PIFC, thus enabling further improvement of this area.

In 2022, numerous activities in the field of PIFC were implemented with the support of projects:

* The project “**Public Finance Reform - Agenda 2030**” is very important for the improvement of the PIFC area, especially in the part related to the implementation of continuous training of internal auditors and for supporting the employees of the CHU in performing activities in the field. This project is implemented in cooperation with MoF and the German Development Cooperation, implemented by GIZ. The activity that attracted the most attention in the reporting period is IT audit training. For the first time, a new approach was applied in organizing training and internal auditors in the public sector gained theoretical and practical knowledge in the field of internal IT audit methodology, information systems audit and information security audit. Also, GIZ provides continuous support in the implementation of activities related to the optimization and better organization of IA and IA reporting.
* With the support of the UNDP-funded project “**Platform for Responsible Public Finance Management**”, the CHU conducted FMC training for PFBs’ managers and other staff at the local level in 2022. In addition, this project supported the improvement of the level of information on the internal audit profession. In 2022, a campaign was conducted to promote responsible management in the public sector and the internal audit profession, the results of which are presented in [more detail below.](#_3.2.8_Промоција_значаја)
* In cooperation with the “**The EU The Public Administration Reform under the Sector Reform Contract**” project, we have been working on improving management accountability, which is explained in more detail [in the text above](#_3.2.2_Унапређење_концепта).
* In 2022, the activities within the project “Support to the Ministry of Finance under the Sectoral Reform Agreement for the Public Administration Reform Sector” have started their implementation with the support of KPMG, in order to modernise the trainings and training materials in the field of PIFC The scenarios for video training for the Heads of PFBs, FMC coordinators and future IAs to become part of the NAPA platform for training staff and managers in public administration and LSGs.
* In early 2022, the **RELOF 2** project was completed, the focus of which was to support local governments in applying good governance principles in risk and performance management through comprehensive internal control and proper public financial management. During the reporting period, support was provided to establish the FMC system and improve the IA function in LSGs and IBBs.

During the process of supporting local self-government in improving the function of IA, internal auditors were provided with mutual professional development through organized trainings, which contributed to their networking and further exchange of experiences. In cooperation with the CHU and the Ministry of Education, a pilot project on the introduction of FMC in primary and secondary schools was carried out, which provided valuable insights for future work with the Ministry of Education on this issue.

In addition, four regional meetings on FMC were organised at the IBBs as well as in schools and further steps for a school-specific approach to FMC were agreed upon. A conference was held on the importance of PIFC at the local level, where municipal/city mayors met and were presented with the importance of introducing PIFC. During this conference, a presentation was also made in connection with the annual reporting to the CHU.

In the following period, cooperation will continue with the **RELOF 3** project, supported by the Swiss government, which aims to support local self-governments in applying the principles of good management and monitoring of local PEs. Project activities aim to strengthen management accountability and performance management, improve lines of accountability and control in the LSG system, and develop new, innovative models, tools, and programmes to improve public financial management.

* Support for the establishment/development of the FMC and the establishment/development of the IA function at the local level is provided by the **EU Exchange 6 Programme** - Increasing the credibility of planning, programme budgeting and control of the execution of public expenditures at the local level in Serbia, which started in September 2021. The EU Exchange 6 Programme is funded by the European Union under the IPA 2019 National Programme and is implemented in direct management mode. The main responsible institutions at national level are MoF and PPS, as well as MPALG. As in the previous phases, SCTM has the role of implementation partner and direct responsibility for the implementation of the planned programme activities. In 2022, project representatives together with CHU representatives participated in meetings with the Heads of PFBs to review the quality of the FMC system. Public tenders were issued for support to PFBs in implementing/improving FMC and IA. Professional support for the implementation/improvement of the FMC system was provided to the Municipalities of Boljevac, Srbobran, Lajkovac, Vrbas and Tutin. Professional support for the introduction/improvement of the IA function was provided to the Municipalities of Trstenik, Odžaci, Kanjiža, Tutin, Golubac and the city of Sombor.

The trainings conducted in coordination with the CHU partners are detailed in part [3.2.3 Trainings](#_3.2.3_Обуке).

### 3.2.8 Promoting the Importance of Internal Financial Control

With the support of donor projects, the CHU worked to familiarise the public with the importance of FMC and IA.

In the past period, the CHU paid great attention to promoting the profession of internal auditor. In 2021, preparatory activities were carried out to attract personnel and promote the internal audit profession in the public sector and the work of the CHU. The campaign to promote the internal audit profession was implemented in early 2022.

Publications aimed at internal auditors, managers and potential internal auditors were produced and published on the CHU website. The document “Analysis of the position of internal auditors in the public sector and proposal for measures to improve the position and to attract staff, and a package of proposals to amend normative acts to improve measures to attract and retain staff in the CHU and internal audit units in the public sector” was produced.

With the support of UNDP, the CHU conducted a campaign involving the promotion of good governance in the public sector and the internal audit profession. An invitation was sent to those interested in a job in IA unit (from the public and private sectors, but also to young graduates) to follow the selection procedures of public sector institutions for employment in IA unit.

The implementation of the media campaign included various forms of advertising:

* billboards in 15 cities with two conceptual solutions, which were displayed for a fortnight in different cities;
* advertisements in the daily newspapers Politika and Večernje novosti in the same period with a total of six announcements (three in each of the mentioned media);
* a video was made promoting the work of the CHU and IA, inviting those interested in the profession of internal auditor to pursue vacancies in public institutions;
* a shorter version of the video (60 seconds) for publication on MoF's social networks, but also for possible broadcast on television;
* the production of a brochure presenting the work and results achieved by the CHU, in addition to highlighting the need for internal auditors in the public sector.

A media conference was held where representatives of the CHU and the Internal Auditor of the City of Belgrade presented the results achieved and the work of the IA as well as the challenges for this profession.

All the mentioned activities aimed at contributing to better information about the IA profession, increasing the attractiveness of the profession itself and correcting negative prejudices about this profession. Furthermore, a wider circle of quality candidates should be familiarised with this profession in order to attract quality personnel, to carry out quality selection in recruitment and to indirectly make the general public aware of the IA function and its importance in terms of the added value it provides to the organisation.

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**IV WEAKNESSES AND RECOMMENDATIONS**

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

## 4.1 Financial Management and Control

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

1) Although the most important institutions in the RS (which also account for the majority of the RS budget) regularly report to the CHU on the status of their FMC systems, the regulations require all PFBs in the RS to report to the CHU. From the group of priority PFBs, some PEs and the City of Prokuplje did not report on the status of their systems to the FMC.

2) AP was adopted in 53.40% of all PFBs. While in the MSIO category 100% of the organisations have adopted the above-mentioned document, the situation in the ministries with administrative bodies can still be described as insufficiently good (55.32%). This document is not only used in the implementation of FMC but is also one of the most useful tools for improving the system, and there is a suspicion that the PFBs see it as a one-off activity.

3) Some of the priority PFBs lack business process maps and risk registers. No less than 7 ministries do not have maps (28.00%) while 9 of them (36.00%) do not have a risk register. A risk management strategy has not been adopted by 9 ministries (36.00%). Five of the 36 PEs that submitted the report (13.88%) have not prepared business process maps, 7 PEs (19.44%) have not prepared a risk register, while 4 PEs (11.11%) have not adopted a risk management strategy. Among the cities, 4 have neither created maps nor a risk register, and one city has not developed a risk management strategy.

4) The control environment is the best rated element of the FMC system by the PFBs. On the other hand, the data shows that there is room for improvement, especially in the following areas:

- human resource management, especially when it comes to mechanisms for attracting and retaining competent staff. PFBs have identified the lack of knowledge and skills of managers and staff, as well as the outflow of quality staff, as the main obstacles to the establishment and development of the FMC system[[28]](#footnote-28);

- the introduction of a system of individual accountability, especially in the area of performance measurement, incentive mechanisms and the avoidance of excessive workloads for staff.

5) *Risk assessment* is still one of the lowest scored elements, despite the progress noted in the number of institutions that have developed risk management strategies and risk registers. A deeper analysis of the data shows that the PFBs do not sufficiently understand the link between the objectives - the allocation of resources and their planning. In this context, the data also showed that besides risk assessment, the updating of the risk register needs to be improved. In addition, the mechanism for timely identification of and response to risks of change is still not recognised as an important factor in achieving the organisation's objectives.

6) Of the five elements of the COSO framework that we analyse - the element of *control activity* is on average in third place, but when we look at the priority PFBs, this is the highest rated element, indicating that the priority PFBs are aware of the importance of control activities in their organisations and that this understanding needs to be extended to the whole public sector.

On the other hand, weaknesses are found in most organisations in the area of developing and implementing control measures designed to reduce risk to an acceptable level. There was also a relatively low percentage of PFBs with regular review and redesign of control activities.

7) PFBs rated the *information and communication* element highest after the control environment element, indicating that the importance of communication is well understood. In this part, it was noted that the recording of information on non-standard behaviour (suspicions of irregularities, complaints, etc.) needs improvement, as the percentage of those who have this system is relatively low, which additionally leads to poor results in the analysis of such behaviour by people who are independent in relation to the behaviour that is the subject of the report.

Although a high level of transparency is ensured with regard to external actors, the figures show that the existing procedures and methods of external communication are not regularly analysed or improved/updated as needed.

8) The average score of the *monitoring (supervision) and evaluation* element is the lowest, as in previous years, mainly due to the insufficient establishment of IA in the PFBs.

The percentage of PFBs reporting on exceptions, i.e. measures taken in case of frequent justified deviations from procedures, is low.

Notwithstanding the unsatisfactory level of establishment of the IA function, which is nevertheless crucial for the objective identification of weaknesses and their elimination, it is noticeable that information on the weaknesses of the FMC system is not sufficiently available to management and others in the organisation. It follows that only 40% of organisations analyse the information about the FMC system weaknesses and then promptly propose appropriate solutions in the form of changes to procedures, elimination, or introduction of new control activities, etc. Ultimately, the timely elimination of FMC system deficiencies and monitoring of the operation of this process are not in place in a large number of organisations.

Overall, the low scores given to the element of monitoring (supervision) and evaluation indicate that PFBs do not pay enough attention to this element.

9) Looking at the individual categories of PFBs, the weakest self-assessment results are observed at the level of IBBs, both at the central and local level.

10) From the data it can be concluded that public sector organisations are inert, i.e. they do not adapt sufficiently to changes. The mentioned weakness affects all elements of the FMC system. PFBs often do not update risk registers, APs, procedures, etc. Risk registers that are not up to date do not have much use value, so there are indications that they are insufficiently used in day-to-day work, i.e. they are only created to meet the requirements. The reasons for the observed inertia can be organisational and personnel-related. It is also possible that organisations do not understand the importance of change management.

To address the perceived weaknesses, the CHU makes the following **recommendations**:

1. Management should dedicate adequate resources in terms of capacity and knowledge about the FMC methodology and the organisation itself and ensure regular reporting on the system using available methodological materials. To verify compliance with the COSO principles, all PFBs must use the FMC manual and a large number of methodological tools in the area of FMC and managerial accountability prepared and published by the CHU. In addition, PFBs have the possibility to refer their managers and staff to the trainings organised by the CHU. In this way, PFBs ensure they have the necessary knowledge base and expertise to help them use FMC tools effectively.
2. There is a need to pay special attention to ensuring adequate staff potential and to work on developing a sustainable policy for attracting and retaining staff, as well as to improve the system of promotion, reward, and training. Without quality and motivated staff, no organisation can operate successfully in the long term or achieve its planned objectives.
3. FMC is a system that needs to be constantly monitored and improved according to identified weaknesses, new circumstances and expected future external and internal changes. An effective FMC system implies a permanent process that does not end with the adoption of a document. The documentation that emerges in this process is an aid, and the essential thing is continuity. PFBs should regularly conduct a self-assessment of the FMC system (at least through this report). It is also necessary to regularly update the risk register and regularly review the adequacy of procedures, i.e. redesign them according to needs, following the requirements of new circumstances and considering registered justified exceptions to existing procedures. AP should be an up-to-date plan covering these activities along with other identified system weaknesses.
4. There is a need to continue to work continuously on improving risk management using the guidance and tools available on the MoF website. In this sense, PFBs should adopt a risk management strategy and then it is necessary to establish a risk register and update it regularly. It is also necessary to develop/implement control activities designed to reduce the risk to an acceptable level, especially considering that this obligation is also set out in the regulations that regulate the FMC system in more detail.[[29]](#footnote-29). These tools are inextricably linked to change tracking and therefore need to be built into it.
5. The area of monitoring (supervision) and evaluation of the FMC system in the PFBs is still the element of the COSO framework with the lowest average score. In addition to working more intensively on adequately setting up the function IA, which independently and objectively contributes to improving the FMC, it is necessary to promote the self-correcting function of the system. To this end, it is necessary to improve the following a) the way organisations deal with the remediation of perceived deficiencies in the internal control system; b) the way information on non-standard behaviour (suspected irregularities, complaints, etc.) is recorded; and c) the procedures (written and unwritten) that allow staff to inform management of perceived weaknesses in the internal control system.
6. The issue of inter-institutional oversight of the FMC system also enters into the issue of oversight in general, considering that the institutions entrusted with oversight propose/issue relevant regulations, bear most of the responsibility for the situation in their area, appoint management, set budgets and assign work objectives to the organisations from their area of responsibility. In this sense, due to the harmonisation of the system of internal controls within sectors/areas, but also due to the nature of the public sector organisation, it is necessary for DBBs (primarily line ministries and LSGs) to be more involved in the function of improving monitoring and enhancing the FMC system of their IBBs. The aforementioned category of PFBs has had the weakest performance in implementing the COSO framework, mainly due to limited internal capacity. The involvement of DBBs in the process of monitoring the objectives and functioning of the internal control system of their IBBs would further strengthen the supervisory function, but also improve compliance and the efficiency of the work of all organisations in the sector, starting from policy setting and implementation to the achievement of objectives.
7. For the continuous improvement of the FMC system, it is necessary for the PFBs to update the AP regularly. Specifically, this means that PFBs decide which areas of the FMC system to improve in the coming period based on the self-assessment questionnaire they complete each year and on their responses.
8. The most important PFBs that have not yet done so should participate in the reporting as soon as possible and start improving the FMC system in their organisation. This concerns especially some PFBs from the PE category (PE “Nacionalni Park Kopaonik”, Kopaonik and Park prirode “Mokra Gora” d.o.o. Mokra Gora) and the City of Prokuplje.
9. As far as the ministries are concerned, it is necessary to strengthen the establishment of the FMC system in the coming period. In this sense, it is necessary that the individual ministries prepare the following basic documents:
   * **Business Process Maps:** The Ministry of the Interior, the Ministry of Rural Welfare, the Ministry of Family Welfare and Demography, the Ministry for Human and Minority Rights and Social Dialogue, the Ministry of Education, the Ministry of Science, Technological Development and Innovation, and Ministry of Foreign Affairs;
   * **Risk Management Strategy:** The Ministry of the Interior, the Ministry of Culture, the Ministry of Science, Technological Development and Innovations, the Ministry of Information and Telecommunications, the Ministry for Public Investment, the Ministry of Family Welfare and Demography, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Agriculture, Forestry and Water Management and the Ministry of Foreign Affairs;
   * **Risk Register:** The Ministry of the Interior, the Ministry for Public Investment, the Ministry of Rural Welfare, the Ministry of Family Welfare and Demography, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Education, the Ministry of Science, Technological Development and Innovation, the Ministry of Agriculture, Forestry and Water Management and Ministry of Foreign Affairs.
10. It is necessary for the following legal entities to make:
    * **Business Process Maps:** Elektrodistribucija Srbije d.o.o. Beograd; PE “Mreža - Most”, “Državna lutrija Srbije”, d.o.o. Beograd,“Metohija”, d.o.o. Beograd and D.o.o. Tvrđava Golubački grad Golubac.
    * **Risk Management Strategy:** “Državna lutrija Srbije”, d.o.o. Beograd; Elektrodistribucija Srbije d.o.o. Beograd, Tvrđava Golubački grad Golubac and “Srbija voz”, a.d.
    * **Risk Register:** PE “Stara Planina” Knjaževac; PE UCE Resavica; PE “Mreža - Most”; “Državna lutrija Srbije” d.o.o. Beograd, Beograd, joint-stock company “Elektroprivreda Srbije“ Beograd, Tvrđava Golubački grad Golubac and “Srbija voz”, a.d.
11. In the category of cities, the following cities should draft and adopt:
    * **Business Process Maps:** Loznica, Novi Pazar, Leskovac and Valjevo;
    * **Risk Register:** Smederevo, Novi Pazar, Kraljevo and Zaječar;
    * **Risk Management Strategy:** Novi Pazar.

## 4.2 Internal Audit

According to the latest data from 2022, there is a positive trend in the development of the IA function in the public sector RS for almost all indicators. There has been an increase of 7% in the number of PFBs with a normatively established IA, while the increase in functionally established IA in 2022 compared to the previous year is 13%. Most of the central level institutions have established IA. The number of systematised posts for IA has increased by 9% and the number of internal auditors employed has increased by 4% in 2022 compared to 2021.

Although IA has been established and is functioning in an increasing number of PFBs, the following **weaknesses** have been identified in this area:

* in the category of ministries, there was a 4% decrease in the number of employed internal auditors compared to the previous year. Out of a total of 25 ministries, a functional IA unit has been established in 15, and only 7 of them employ at least three internal auditors, being the minimum prescribed by regulation. The Ministry of Foreign Affairs, the Ministry of Environmental Protection, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography and the Ministry of Rural Welfare, as well as the Ministry of Science, Technological Development and Innovation, the Ministry of Tourism and Youth, the Ministry of Information and Telecommunications and the Ministry for Public Investment formed at the end of 2022 still do not have a functional IA unit.
* at the local self-government level, in the category of cities and municipalities, an 11% increase in the number of internal auditors employed was noted compared to the previous year. In line with provisions of Article 6, paragraph 1 of the IA Rulebook, cities are obliged to have a fully staffed IA unit, but 71% do not fulfil this obligation to employ at least three internal auditors. In addition, the Cities of Leskovac, Čačak, Jagodina, Kikinda and Smederevo have not established a functional IA.
* Weaknesses within all categories of PFB:
* The high percentage of established IAs with less than three employees raises doubts as to whether the standards of IA can be fully met;
* Despite efforts to recruit a certain number of new internal auditors, the inability to attract and retain qualified staff remains evident, resulting in an insufficient number of internal auditors. Due to long-term employment constraints, a decreasing number of candidates are applying for basic IA training, indicating a lower potential for the influx of internal auditors into the public sector. Furthermore, a further decrease in numbers due to natural attrition is to be expected, considering the age of the employed internal auditors;
* insufficient support from part of Heads of PFBs represents one of the causes of the weaknesses identified in filling internal auditor posts, not implementing part of the recommendations of IA, performing other tasks not related to IA and enabling the professional development of internal auditors;
* A significant number of IA units of the PFBs have no quality assurance and improvement programme in place and do not fully evaluate the work of IA apart from regular monitoring by the head of the IA unit. The reasons for such a situation include vacant posts, i.e. one employee in the IA unit or the vacant post of the head of the IA unit, and it is not possible to apply periodical self-assessment;
* IA annual plans were not realised, i.e. a total of 29% of the planned audits were not implemented.

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

* Recommendations for the establishment of the IA function and the staffing of the IA posts, as well as for the improvement of the professional status of internal auditors:
* PFBs should in accordance with the obligations under Article 3 to Article 6 of the IA Rulebook establish the IA function, to harmonise the systematisation, job descriptions and number of staff members for the internal auditor posts and to fill the internal auditor posts. Possession of a certificate for certified internal auditors in the public sector should not be listed in the internal systematisation as a prerequisite for hiring an internal auditor. In the enactments on the systematisation and job descriptions, the minimum requirements that a candidate must meet in order to fill the post of internal auditor are as follows: at least three years of professional experience with a university degree performing the work in the fields of auditing, internal control, financial control or accounting and financial work. A prerequisite for deployment on these posts is not to have previously acquired the CIA certificate in public sector, as the obligation to acquire this certificate only arises after deployment. For persons deployed on IA, an application to the CHU for further training to acquire the title of CIA in public sector is compulsory. You can download the job descriptions of the internal auditors from the MoF website: <https://www.mfin.gov.rs/o-ministarstvu/interna-revizija>;
* Priority:
* the Ministry of European Integration, the Ministry of Mining and Energy, the Ministry of Economy, the Ministry of Domestic and Foreign Trade, the Ministry of Construction, Transport and Infrastructure, the Ministry of Public Administration and Local Self-Government, the Ministry of Agriculture, Forestry and Water Management,the Ministry of Labour, Employment, Veterans and Social Affairs, and the Ministry of Sport should fill the vacant internal auditor positions as soon as possible in line with Article 3, paragraph 3, and Article 5, paragraph 2 of IR Rulebook
* The Ministry of Environmental Protection, the Ministry of Foreign Affairs, the Ministry of Family Welfare and Demography, the Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Science, Technological Development and Innovations, the Ministry for Public Investment, the Ministry of Tourism and Youth, the Ministry of Information and Telecommunication, and the Ministry of Rural Welfare should in line with Article 3, paragraph 3 and Article 5, paragraph 2. of the IA Rulebook, establish IA function with at least three internal auditors and fill the internal auditor posts as soon as possible.
* Priority:
* Cities: Kruševac, Kikinda, Sremska Mitrovica, Jagodina, Loznica, Bor, Smederevo, Leskovac, Čačak, Šabac, Zaječar and Vršac should harmonise systematisation in accordance with Article 3, paragraph 3, and Article 6, paragraph 1 of the IA Rulebook, form the IA unit with at least three internal auditors, and fill the internal auditor posts as soon as possible;
* Cities: Subotica, Požarevac, Vranje, Pančevo, Prokuplje, Zrenjanin, Valjevo, Sombor and Kraljevo should fill the internal auditor positions as soon as possible.
* For the proper establishment of the IA function, the role of PFB managers is crucial. Therefore, those managers who have not adequately ensured the establishment of the IA function in the organisation they manage should, in addition to filling the posts of internal auditors in accordance with Article 8, paragraph 4 of the IA Rulebook, ensure the independence of IA in such a way that the auditors do not perform any other duties other than those in the area of IA. In addition, PFB management must work to ensure that the recommendations of IA are adequately implemented and that internal auditors receive professional development. In order to ensure timely monitoring of the implementation of the IA recommendations, the management of the auditee must ensure that timely reports are sent to internal audit on the implementation of the activities designed to comply with the recommendations made and accepted within the agreed deadlines, so that the impact and effectiveness of the IA function in the organisation can be confirmed.
* Heads of internal audit units, which are functional, should adopt a quality assurance and improvement programme and conduct an internal IA quality assessment in accordance with the recommended existing Model for internal quality assessment for internal audit units. The model for internal performance reviews can be downloaded from the MoF website <https://www.mfin.gov.rs/o-ministarstvu/interna-revizija>;
* In order to comply with the annual IA work plan, increase efficiency in the performance of audit engagements and reduce the number of non-performed engagements, in addition to strengthening staff capacity, all individual causes of non-performance of audit engagements should be reviewed. The PFB and its IA must ensure that the annual plan IA is realistic, appropriate and consistent with the risk assessment. Deviations are possible due to future events or contingencies that were not and could not have been foreseen at the time the plan was prepared. The annual IA work plan should be reviewed regularly and corrected, if necessary, with the approval and authorisation of the Head of PFB being mandatory.

## CONCLUSION

In 2022, CHU's focus was on improving communication with PFBs and providing active support in the area of PIFC. Bearing in mind the feedback received within the exercise to review the quality of the FMC system in the practice, the FMC report form for 2022 has been improved, the structure and the way of filling in the questionnaire have been changed, allowing users to more clearly assess the application of the principles of the COSO framework in their organisation and to identify the weaknesses of their FMC systems. For the 2022 reporting year, electronic reporting was fully operational and support for the reporting process was provided by CHU. The growth trend of electronic signing and submission of required documentation continued, which has been possible since the reporting period for 2021. The focus in the previous year was on trainings for leaders organised at local level and on assessing the quality of the state of FCM at PFBs.

Consequently, in 2022, the number of reports submitted has increased significantly compared to all previous reporting cycles. The most important institutions continue to report regularly on their FMC systems, but there are exceptions.

**The most important institutions and PEs at the level of RS, which account for most of the expenditure and expenses of the budgets of RS and local self-governments, i.e. the revenues of the PE group, report on the state of the FMC system to a significant percentage.**

Progress has been made on all indicators of FMC system maturity. The analysis of results by level and category of PFBs still shows that most PFBs at the central level have better results than at the local level in most cases. The group of priority PFBs, almost by all criteria, consistently shows the best results, and specifically MSIO, compared to all other categories, they have better scores. The analysis of the responses of PFBs that report regularly also shows continuous progress, which actually shows how the FMC system is slowly maturing within the organisation when it is regularly improved.

The IBBs have the most room for improvement as they have the lowest multi-year average in most categories related to the establishment of the system. There is a need for DBBs (primarily line ministries and LSGs) to be more involved in the function of improving the monitoring and improvement of the FMC system of their IBBs. The involvement of DBBs in the process of monitoring the objectives and functioning of the internal control system of their IBBs would further strengthen the supervisory function, but also improve compliance and the efficiency of the work of all organisations in the sector, starting from policy setting and implementation to the achievement of objectives.

It should be noted that authorities and organisations subject to the obligation to designate the internal organisational unit for planning documents, and which report regularly, recorded a high growth rate of 31.58% in 2022 when it comes to fulfilling this obligation. This is extremely importance given the function of these units for the internal control system.

A steady percentage growth has also been recorded in the parameters of organisational set-up of the FMC system at the level of all PFBs in RS during 2021-2022. The shift is particularly pronounced in the adoption of the AP (19.25%) and the adoption of the risk management strategy (18.41%) and especially in the business process maps, where the growth is as high as 26.92%.

The new methodology has also highlighted the need for regular improvement of various aspects of the FMC system. The improvements to the questionnaire in this and previous years have shown more clearly that FMC is perceived as a one-off activity. The new questionnaire more clearly indicates to the PFBs which parts of the system particularly need to be reviewed and updated/improved.

The *control environment* element is rated best by PFBs. The principle that assesses whether management has established an organisational structure, reporting lines and appropriate authorities and responsibilities to achieve the objectives is rated highest. However, the principle that assesses whether the organisation is putting in place a system of individual accountability for staff to carry out assigned tasks in the area of FMC was rated the lowest, so further work is needed to improve individual accountability. There is room for further progress, not only in establishing an effective accountability system, but also in ensuring a higher level of supervision and redistribution of excessive staff workload. Issues related to human resources stand out clearly from other issues that map the control environment. A small percentage of the PFBs acknowledges that it has an established mechanism for attracting and retaining qualified staff. There are problems in managing human resources, i.e. there is a noticeable outflow of quality staff. There is a need to pay special attention to ensuring adequate staff potential and to work on developing a sustainable policy for attracting and retaining staff, as well as to improve the system of promotion, reward, and training. Without quality and motivated staff, no organisation can operate successfully in the long term or achieve its planned objectives.

*Risk assessment* is still one of the lowest scored elements, despite the progress noted in the number of institutions that have developed risk management strategies and risk registers. A deeper analysis of the data shows that the PFBs do not sufficiently understand the link between the objectives - the allocation of resources and their planning. In this context, the data also showed that besides risk assessment, the updating of the risk register needs to be improved. Nor has a mechanism for timely recognition of and response to the risks of change been identified as an important factor in achieving the organisation's goals.

The element of *control activities* is ranked third, but when we look at the priority PFBs, this is the highest ranked element, indicating that the priority PFBs are aware of the importance of control activity in their organisations and that this understanding needs to be extended to the whole public sector. A relatively small percentage of PFBs reported on exceptions, i.e. cases of approved deviations from established procedures, and reviewed and redesigned control activities on regular basis.

The PFBs rated *the information and communication* element highest after the control environment element, indicating that the PFBs have correctly identified the importance of this element. The data show that PBFs are good at identifying information that is important to the organisation's business and the functioning of the FMC system and are vigilant about compliance with personal data protection regulations. In addition, a large percentage of PBFs have established a system that allows employees easy access to information, and in most PBFs unauthorised access to information is disabled; an effective and efficient system of written, electronic, and verbal communication; new employees and employees in new positions are familiarised with their roles and responsibilities, while employees are familiarised with the organisation's objectives. It was noted that the collection of information on non-standard behaviour (suspected irregularities, complaints, etc.) needs to be improved. A high level of transparency was ensured vis-à-vis external actors. The figures show that the existing procedures and methods of external communication are not regularly analysed or improved/updated. However, as in previous years, the resulting changes (internal and external) are only considered and there is a lack of an organised way to respond to them.

The average score of the *monitoring and evaluation* element is the lowest, as in previous years, mainly due to the insufficient establishment of IA in the PFBs. Although the percentage of PFBs that stated: that staff comply with procedures and perform their duties; that managers and staff monitor whether control activities are functioning as intended; that managers monitor the achievement of the objectives of staff and the part of the organisation they manage; and that management regularly receives information from staff on the performance of work tasks, risks, irregularities, and that managers monitor compliance with laws and regulations - is extremely high - the other percentages of the elements of this principle, however, are not so high. Regarding the self-assessment of the FMC system, which was carried out independently of the annual reporting process, one fourth of the PFBs have carried out an extraordinary self-assessment of the system.

According to the PFBs management, who had experience with the recommendations of the IA and the external audit, a high level of consideration, acceptance, and implementation of the recommendations of internal and external auditors was observed. The recommendations are not only considered but also accepted and implemented in a timely manner. Internal and external audit are understood by the PFBs as important functions that provide support to management.

Since its inception, the CHU has certified 550 CIAs, of which 328 were active in 2022. In the public sector, a total of 793 IA posts have been systematised, of which 558 have been filled.

According to the latest data from 2022, there is a positive trend in the development of the IA function in the public sector RS for almost all indicators. There has been an increase of 7% in the number of PFBs with a normatively established IA, while the increase in functionally established IA in 2022 compared to the previous year is 13%. Most of the central level institutions have established IA. The number of systematised posts for IA has increased by 9% and the number of internal auditors employed has increased by 4% in 2022 compared to 2021.

Despite efforts to recruit a certain number of new internal auditors, the inability to attract and retain qualified staff remains evident, resulting in an insufficient number of internal auditors. Furthermore, a further decrease in numbers due to natural attrition is to be expected, considering the age of the employed internal auditors. The high percentage of established IAs with less than three employees raises doubts as to whether the standards of IA can be fully met. In the category of ministries, there was a 4% decrease in the number of employed internal auditors compared to the previous year. Out of a total of 25 ministries, a functional IA unit has been established in 15, and only 7 of them employ at least three internal auditors, being the minimum prescribed by law. At the local self-government level, in the category of cities and municipalities, an 11% increase in the number of internal auditors employed was noted compared to the previous year. Cities are obliged to have a fully staffed IA unit, but 71% do not fulfil this obligation.

Looking at all categories of PFBs, insufficient support from part of Heads of PFBs in filling internal auditor positions, not implementing part of the recommendations of IA, performing other tasks not related to IA and enabling professional development of internal auditors can be seen as weaknesses. A significant number of IA units of the PFBs have no quality assurance and improvement programme in place and do not fully evaluate the work of IA apart from regular monitoring by the head of the IA unit. The reasons for such a situation include vacant posts, i.e. one employee in the IA unit or the vacant post of the head of the IA unit.

# ANNEXES

# Annex 1. Legal Framework and International Standards

**REPORTING REQUIREMENTS**

Pursuant to Article 83 of the BSL, the CHU in the Ministry of Finance is tasked with consolidating the individual annual reports of PFBs on the status of FMC and IA, and the  
finance minister submits the Consolidated Annual Report to the Government.

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

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

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

**PIFC PLANNING DOCUMENTS**

Strategic framework (planning documents):

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

**FINANCIAL MANAGEMENT AND CONTROL**

**National legislation**

In addition to:

* The Budget System Law, (“Official Gazette of the RS”, no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corrigendum, 108/13, 142/14, 68/15-д other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 - other law and 138/22)
* Rulebook on Joint Criteria and Standards for Establishment, Functioning and Reporting on the System of financial system and control in public sector (“Official Gazette of the RS”, no. 89/19),

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

* Law on Civil Servants (“Official Gazette of the RS” [79/05;](http://www.propisi.net/DocumnetWebClient/ingpro.webclient.Main/FileContentServlet/propis/0137cc/13703.htm?encoding=Ð‹Ð¸ÑÐ¸Ð) [no. 81/05- corrigendum, 83/05-corrigendum, 64/07, 67/07-corrigendum, 116/08, 104/09, 99/14](http://www.propisi.net/DocumnetWebClient/ingpro.webclient.Main/FileContentServlet/propis/0137cc/13703.htm?encoding=Ð‹Ð¸ÑÐ¸Ð), 94/17, 95/18,157/20 and 142/22); [)](http://www.propisi.net/DocumnetWebClient/ingpro.webclient.Main/FileContentServlet/propis/0137cc/13703.htm?encoding=Ð‹Ð¸ÑÐ¸Ð);
* The Labour Law (“Official Gazette of the RS“, no. 24/05, 61/05, 54/09, 32/13, 75/14, 13/ 17- CC Decision, 113/17 and 95/18 – authentic interpretation);
* Law on Public Procurement (“Official Gazette of the RS” 91/19);
* Law on Salaries of Civil Servants and State Employees (“Official Gazette of the RS”, no. 62/06, 63/06-corrigendum, 115/06-corrigendum, 101/07, 99/10, 108/13, 99/14, 95/18 and 14/2022);
* Law on Salaries in State Bodies and Public Services (“Official Gazette of the RS”, no. 34/01, 62/06-as amended, 63/06-amended other law, 116/08- as amended, 92 / 11, 99/11-as amended, 10/13, 55/13, 99/14 and 21/16- as amended and 113/17 - as amended)
* Law on Public Enterprises (“Official Gazette of the RS”, no. 15/16 and 88/19).
* Regulation on Reimbursement of Expenses and Severance Pay for Civil Servants and Employees (“Official Gazette of the RS”, no. 98/07-consolidated text, 84/14, 84/15 and 74/2021);
* Regulation on Budget Accounting (“Official Gazette of the RS”, no. [125/03](http://www.propisi.net/DocumnetWebClient/ingpro.webclient.Main/FileContentServlet/propis/0097cc/9726.htm?encoding=Ð‹Ð¸ÑÐ¸Ð),12/06 and 27/20);
* Rulebook on common bases, criteria, and tasks for the activity of financial departments of direct budget beneficiaries (“Official Gazette of the RS”, no. 123/03);
* Rulebook on the standard classification framework and Chart of Accounts for the budget system (“Official Gazette of the RS”, no. 16/16, 49/16, 107/16 и 46/17, 114/17, 20/18, 36/18, 93/18, 104/18, 14/19, 33/19, 68/19, 84/19, 151/20, 19/21, 66/21, 130/21, 11/22 and 26/23);
* Rulebook regulating the preparation, compilation, and submission of financial statements of budget beneficiaries, beneficiaries of funds of mandatory social insurance organisations and budget-based funds (“Official Gazette of the RS”, no. 18/15,104/18, 151/20, 8/21, 41/21, 130/21 and 17/22);
* Rulebook regulating the use of funds from sub-accounts of the consolidated account of the Treasury of the Republic and/or other accounts, the investment of funds and the reporting on the use and/or investment of funds (“Official Gazette of the RS”, no. 101/18).

**International principles and standards**

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

**INTERNAL AUDIT**

**Concept and Definition**

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

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

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

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

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

**Legal Basis and International Standards**

The legal framework that regulates internal audit includes the following:

* The Budget System Law, Official Gazette of the RS”, no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corrigendum, 108/13, 142/14, 68/15-д other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 - other law and 138/22);
* Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/11 and 106/13).
* Rulebook on Conditions, Manner and Procedure for Taking an Exam and Obtaining a Title of Certified Internal Auditor in the Public Sector (“Official Gazette of the RS”, no. 9/14);
* Rulebook on Professional Development of Internal Auditor in the Public Sector (“Official Gazette of the RS”, no. 15/19);
* The IIA’s International Standards for the Professional Practice of Internal Auditing.

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

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

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

**Status and Organisation**

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

The decentralised internal audit system requires all public fund beneficiaries to have the internal audit function in place. The IA Rulebook 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 staff members 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 organising 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. Indicators of the Status of the FMC System

**Table 1. Parameters of the Establishment of the FMC System Observed by PFB Categories.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ESTABLISHMENT OF THE FINANCIAL MANAGEMENT AND CONTROL SYSTEM (in %) | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| Have you appointed an FMC manager? | 85.11 | 100.00 | 64.47 | 66.47 | 88.89 | 74.23 | 57.27 | 69.13 | 83.05 | 64.72 | 83.82 | 73.15 | 70.40 | 91.30 |
| Have you established a working group managed by an FMC manager, tasked with introducing and developing the financial management and control system? | 72.34 | 100.00 | 63.16 | 66.23 | 86.11 | 72.16 | 51.10 | 63.39 | 87.01 | 58.70 | 84.47 | 70.66 | 67.07 | 88.04 |
| Have you adopted an action plan (plan of activities) to establish a financial management and control system? | 55.32 | 100.00 | 56.58 | 48.02 | 75.00 | 68.04 | 43.17 | 49.31 | 68.93 | 55.69 | 70.87 | 62.18 | 53.40 | 73.91 |
| Have you determined the tasks of the persons responsible for financial management and control, working groups, as well as deadlines for their execution? | 83.36 | 100.00 | 68.42 | 58.64 | 86.11 | 70.10 | 51.54 | 59.86 | 79.10 | 61.20 | 81.23 | 69.83 | 63.83 | 85.87 |
| Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system? | 91.49 | 100.00 | 78.95 | 76.64 | 97.22 | 82.47 | 68.72 | 76.84 | 89.27 | 63.90 | 88.97 | 78.23 | 77.28 | 96.74 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Are you using the Financial Management and Control Guidelines of the Central Harmonization Unit (Ministry of Finance) for establishing the financial management and control system? |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Guidelines for management of irregularities | 55.45 | 100.00 | 48.68 | 32.14 | 58.33 | 50.52 | 47.73 | 35.51 | 55.37 | 27.42 | 44.34 | 36.81 | 35.92 | 67.39 |
| Guidelines for risk management | 80.85 | 100.00 | 64.47 | 49.43 | 88.89 | 69.07 | 51.54 | 52.27 | 71.19 | 43.81 | 67.96 | 55.17 | 53.19 | 89.13 |
| Guidelines for managerial accountability | 53.19 | 75.00 | 39.47 | 24.23 | 55.56 | 37.11 | 33.04 | 27.27 | 44.63 | 23.24 | 33.66 | 29.70 | 28.04 | 67.39 |
| Guidelines on delegation system | 36.17 | 50.00 | 22.37 | 12.14 | 38.89 | 26.80 | 20.26 | 14.84 | 32.77 | 11.04 | 22.33 | 17.80 | 15.78 | 50.00 |
| Guidelines on FMC for small public funds beneficiaries | 21.28 | 0.00 | 55.26 | 45.26 | 25.00 | 37.11 | 29.52 | 42.84 | 30.51 | 46.66 | 40.13 | 42.16 | 42.62 | 22.83 |
| None of the above | 8.51 | 0.00 | 13.16 | 26.29 | 2.78 | 21.63 | 30.84 | 25.34 | 18.64 | 29.93 | 14.89 | 23.80 | 24.85 | 2.17 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Did the managers and staff tasked with financial management and control attend training in the FMC field organised by the Central Harmonization Unit in the past five years? | 53.19 | 75.00 | 42.11 | 17.51 | 63.11 | 28.87 | 25.11 | 21.01 | 53.67 | 19.06 | 33.98 | 28.97 | 23.54 | 63.04 |
| Did the managers and staff tasked with financial management and control attend training in the FMC field not organised by the Central Harmonization Unit in the past five years? | 38.30 | 75.00 | 38.16 | 30.57 | 50.00 | 51.55 | 34.80 | 32.63 | 61.02 | 34.78 | 57.61 | 45.57 | 36.74 | 53.26 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Your organisation has the following documents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Risk Management Strategy | 68,09 | 100.00 | 51.32 | 47.05 | 88.89 | 70.10 | 66.96 | 51.24 | 86.44 | 52.84 | 73.79 | 64.30 | 55.39 | 84.78 |
| Risk Register | 70.21 | 100.00 | 46.05 | 34.91 | 80.56 | 61.83 | 41.85 | 38.59 | 71.75 | 43.65 | 65.37 | 54.43 | 43.62 | 78.26 |
| Business Process Maps | 63.83 | 100.00 | 56.58 | 37.24 | 86.11 | 65.98 | 40.53 | 40.78 | 77.97 | 45.32 | 70.55 | 57.84 | 46.19 | 82.61 |
| Integrity Plan | 74.47 | 100.00 | 59.21 | 76.10 | 69.44 | 62.89 | 88.55 | 76.11 | 69.49 | 34.95 | 59.87 | 47.69 | 67.10 | 78.26 |
| Rulebook on Internal Organisation and Job Classification | 97.87 | 100.00 | 97.37 | 94.96 | 100.00 | 95.88 | 97.80 | 95.50 | 94.92 | 87.63 | 96.12 | 91.24 | 94.15 | 100.00 |
| Mid-term Organisation Plan | 42.55 | 50.00 | 34.21 | 24.88 | 66.67 | 31.96 | 30.40 | 27.06 | 24.29 | 17.73 | 50.81 | 28.23 | 27.43 | 52.17 |
| None of the above | 2.13 | 0.00 | 2.63 | 3.52 | 0.00 | 2.06 | 0.00 | 3.00 | 1.13 | 9.70 | 2.59 | 6.27 | 4.04 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Article 21a of the Regulation on principles for internal organization and staff establishment in ministries, special organisations, and government? (to be answered by ministries, their administrative bodies and special organizations) | 44.68 | / | 44.44 | / | / | / | / | / | / | / | / | / | 44.62 | / |

**Table 2. Indicators of the Status of the FMC System according to the Elements and Principles of the COSO Framework**

**1.CONTROL ENVIRONMENT**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Principle 1  Organisation is demonstrating its commitment to integrity and ethical values | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| The management has set the standards of conduct (code of conduct consistent with the organisation's regulations, ethical standards and values) | 93.62 | 100.00 | 90.79 | 94.80 | 91.67 | 87.63 | 96.04 | 94.43 | 96.61 | 70.74 | 80.58 | 77.77 | 89.14 | 93.81 |
| Employees, external partners of the organisation and users of services/citizens and are informed about rules of conduct | 82.98 | 100.00 | 89.47 | 86.84 | 80.56 | 80.41 | 88.55 | 86.49 | 85.88 | 64.88 | 73.46 | 70.76 | 81.50 | 83.51 |
| Measures are prescribed in the event of non-compliance with the rules of conduct | 80.85 | 100.00 | 86.84 | 87.86 | 80.56 | 81.44 | 84.14 | 86.96 | 84.75 | 62.21 | 67.96 | 67.53 | 80.80 | 85.57 |
| Compliance with the rules of conduct is monitored | 93.62 | 100.00 | 85.53 | 87.32 | 80.56 | 82.47 | 82.38 | 86.62 | 79.10 | 66.22 | 70.87 | 69.65 | 81.24 | 86.60 |
| Appropriate action is taken for non-compliance with the rules of conduct (examples: Interview, warning, admonition, disciplinary action, dismissal, etc.) | 97.87 | 100.00 | 89.47 | 91.82 | 91.67 | 86.60 | 92.51 | 91.72 | 86.44 | 75.75 | 81.23 | 79.06 | 87.70 | 93.81 |
| Trainings on integrity, ethical values and organisational culture are regularly organised for employees and especially for new employees | 63.83 | 75.00 | 76.32 | 64.34 | 41.76 | 44.33 | 47.14 | 61.88 | 50.28 | 34.62 | 27.18 | 35.06 | 53.37 | 58.76 |
| The rules define possible conflicts of interest, corruption and courses of action | 85.11 | 100.00 | 82.89 | 78.75 | 77.78 | 78.35 | 75.33 | 78.69 | 79.10 | 57.67 | 67.96 | 60.79 | 73.01 | 81.44 |
| Clear rules on whistleblowing have been established to report suspicions regarding the violation of regulations and human rights, the improper exercise of public authority, threats to life, public health, safety and the environment, and the prevention of major damage | 91.49 | 100.00 | 86.84 | 85.64 | 97.22 | 86.60 | 84.14 | 85.89 | 80.23 | 66.56 | 85.76 | 84.26 | 82.20 | 92.78 |
| There is a mechanism to report, record in one place and decide upon suspected cases of corruption, fraud, financial reporting errors, irregularities in contracting, mishandling of equipment, misrepresentation and provision of false information, and other irregularities. | 74.47 | 75.00 | 73.68 | 67.10 | 69.44 | 71.13 | 67.84 | 67.75 | 55.93 | 45.82 | 59.55 | 51.38 | 62.56 | 67.01 |
| Data on compliance with the Rules of Conduct are analysed regularly and policies, communications, training, prevention and detection mechanisms and actions in the event of breaches of the Rules of Conduct will be updated/improved as necessary. | 61.70 | 100.00 | 57.89 | 46.07 | 50.00 | 55.67 | 43.17 | 47.04 | 35.59 | 27.42 | 32.36 | 30.17 | 41.69 | 52.58 |
| Management, through its own conduct, compliance with laws, regulations and internal actions, norms of behaviour, the way it is managing, its professionalism and commitment, etc., acts as a role model for others | 97.87 | 100.00 | 94.74 | 91.54 | 94.44 | 96.61 | 94.71 | 92.37 | 90.40 | 85.12 | 89.64 | 87.27 | 90.75 | 96.91 |
| Management has identified adequate resources (competent staff, time, attention, and other resources) for the development of the FMC | 74.47 | 100.00 | 71.05 | 57.18 | 94.44 | 75.26 | 48.90 | 58.58 | 66.67 | 49.67 | 64.40 | 56.64 | 57.96 | 82.47 |
| None of the above | 0.00 | 0.00 | 3.95 | 0.76 | 0.00 | 1.03 | 0.88 | 0.86 | 0.56 | 5.18 | 2.91 | 3.78 | 1.79 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers given above to Principle 1 (Question 5.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation demonstrates an appropriate commitment to integrity and ethical values: | 4.45 | 4.75 | 4.32 | 4.18 | 4.17 | 4.07 | 3.97 | 4.16 | 4.10 | 3.71 | 3.87 | 3.82 | 4.05 | 4.36 |
| Principle 2  The supervisory authority/body is independent of the management and monitors the internal control system (FMC) - only PFBs that have a supervisory/management board qualify | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
| Supervisory authority/body (supervisory/administrative board): | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| exists in your organisation; | 0.00 | 75.00 | 1.32 | 53.98 | 69.44 | 68.04 | 98.24 | 56.35 | 0.00 | 83.95 | 94.50 | 74.08 | 61.97 | / |
| supervises/monitors the functioning of all FMC components (deals with ethics, resources, goals and plans, risks, controls, reporting, system weaknesses, operations and functioning of the organisation): | / | 100.00 | 100.00 | 63.65 | 56.00 | 63.64 | 66.82 | 64.16 | / | 52.19 | 54.79 | 53.18 | 59.99 | / |
| they are composed of competent persons with complementary knowledge and experience who can objectively and critically analyse the functioning of the organisation; | / | 100.00 | 100.00 | 55.32 | 92.00 | 95.45 | 72.65 | 61.11 | / | 62.75 | 83.22 | 70.36 | 64.62 | / |
| assembles members who are not in a conflict of interest; | / | 100.00 | 100.00 | 91.97 | 92.00 | 98.48 | 95.52 | 92.92 | / | 91.24 | 91.44 | 91.16 | 92.25 | / |
| analyses potential weaknesses and makes suggestions to improve the quality of management; | / | 66.67 | 100.00 | 73.09 | 84.00 | 87.88 | 79.82 | 75.19 | / | 67.33 | 70.55 | 68.62 | 72.70 | / |
| maintains direct communication with internal audit; | / | 0.00 | 0.00 | 8.23 | 60.00 | 21.21 | 13.00 | 10.65 | / | 4.78 | 15.07 | 8.72 | 9.92 | / |
| maintains direct communication with the internal audit function; | / | 0.00 | 100.00 | 7.23 | 52.00 | 24.24 | 7.62 | 9.06 | / | 5.98 | 21.58 | 11.83 | 10.11 | / |
| monitors, in particular, areas of high risk (transactions with a high monetary value, complex transactions, etc.); | / | 33.33 | 100.00 | 42.29 | 68.00 | 63.64 | 50.22 | 49.01 | / | 34.46 | 54.45 | 41.97 | 46.34 | / |
| none of the above. | / | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | / | 0.00 | 0.00 | 0.00 | 0.00 | / |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers to Principle 2 (question 6.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation's supervisor (supervisory/management board) adequately demonstrates independence from management and oversees the development and function of the FMC | / | 4.00 | 4.00 | 3.85 | 4.32 | 4.02 | 3.73 | 3.85 | / | 3.74 | 3.87 | 3.78 | 3.83 | / |

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

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

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

**2. RISK ASSESSMENT**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Principle 6  The organisation establishes objectives that are sufficiently clear to enable the identification and assessment of risks associated with those objectives | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| Strategic goals are aligned with goals from public policy documents. | 89.36 | 100.00 | 76.32 | 73.66 | 100.00 | 80.41 | 79.30 | 75.34 | 84.75 | 68.90 | 81.23 | 75.00 | 75.23 | 92.78 |
| Operational objectives are derived from strategic objectives. | 89.36 | 100.00 | 80.26 | 74.91 | 100.00 | 83.51 | 76.65 | 76.33 | 78.53 | 66.56 | 81.55 | 7279 | 75.20 | 91.75 |
| The goals are specific, measurable, achievable, realistic, and timely (according to the SMART principle). | 87.23 | 100.00 | 76.32 | 60.00 | 88.89 | 77.32 | 66.96 | 62.99 | 70.62 | 53.85 | 66.34 | 60.15 | 62.09 | 87.63 |
| The objectives are the basis for the allocation of resources. | 74.47 | 100.00 | 69.74 | 46.78 | 80.56 | 75.26 | 66.96 | 51.84 | 59.32 | 44.65 | 64.40 | 52.68 | 52.11 | 75.26 |
| Income and expenditure are projected and planned in accordance with the organisation's established objectives. | 89.36 | 100.00 | 86.84 | 89.11 | 97.22 | 93.81 | 94.71 | 89.92 | 92.66 | 88.13 | 95.15 | 90.87 | 90.22 | 93.81 |
| The organisation determines the acceptable degree of deviation from the established objectives. | 59.57 | 75.00 | 64.47 | 55.77 | 69.44 | 79.38 | 65.64 | 58.32 | 54.24 | 54.85 | 60.52 | 56.37 | 57.70 | 62.89 |
| The objectives are in accordance with laws and other regulations as well as professional standards. | 93.62 | 0.00 | 85.53 | 88.73 | 100.00 | 94.85 | 89.87 | 89.29 | 90.40 | 81.61 | 92.56 | 86.16 | 88.29 | 94.85 |
| None of the above. | 2.13 | 0.00 | 7.89 | 4.77 | 0.00 | 3.09 | 3.52 | 4.55 | 4.52 | 7.53 | 1.62 | 5.35 | 4.80 | 2.06 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers to Principle 6 (Question 10.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation has adequately defined its objectives: | 4.45 | 4.75 | 4.17 | 4.08 | 4.47 | 4.38 | 4.11 | 4.11 | 4.01 | 3.89 | 4.16 | 3.99 | 4.07 | 4.41 |

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

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

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

**3. CONTROL ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Principle 10  The public sector organisation selects and develops control activities (policies, procedures, measures, activities, mechanisms, rules) that help reduce the risk to the achievement of objectives to an acceptable level | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| The following key business processes have been identified and described in the organisation: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| operational processes (business processes directly aimed at fulfilling the organisation's purpose of existence / delivery of goods and provision of services to citizens / satisfaction of citizens' needs); | 95.74 | 100.00 | 86.84 | 73.66 | 94.44 | 91.75 | 89.43 | 77.19 | 88.70 | 85.45 | 92.23 | 87.92 | 80.59 | 95.88 |
| support processes (finance, HR, IT support, etc.); | 89.36 | 100.00 | 88.16 | 76.31 | 94.44 | 89.69 | 90.31 | 79.20 | 87.57 | 71.40 | 81.88 | 77.03 | 78.51 | 93.81 |
| management processes (planning, control, etc.); | 85.11 | 100.00 | 85.53 | 75.56 | 94.44 | 96.60 | 88.11 | 78.09 | 78.53 | 72.91 | 80.58 | 76.01 | 77.43 | 89.69 |
| None of the above. | 0.00 | 0.00 | 7.89 | 13.60 | 2.78 | 3.09 | 3.52 | 11.62 | 5.08 | 9.36 | 5.83 | 7.66 | 10.36 | 2.06 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Parts of the business processes requiring controls and activities have been identified. | 87.23 | 100.00 | 63.16 | 58.59 | 83.33 | 78.35 | 72.69 | 61.96 | 77.40 | 57.53 | 71.52 | 64.76 | 62.85 | 86.60 |
| Appropriate personnel (person profile) and selection, development and implementation of control activities have been established. | 68.09 | 75.00 | 57.89 | 52.95 | 75.00 | 74.23 | 65.64 | 55.92 | 66.10 | 48.33 | 59.22 | 54.34 | 55.42 | 71.13 |
| The selection and development of control activities is carried out for all risks for which management has decided to treat them as such. | 63.83 | 100.00 | 47.37 | 40.22 | 61.11 | 61.86 | 45.81 | 42.80 | 48.02 | 38.80 | 44.98 | 42.07 | 42.56 | 55.67 |
| An assessment of the effectiveness and efficiency (efficacy/benefits and costs) of the different types of control measures is carried out. | 46.81 | 75.00 | 40.79 | 30.89 | 50.00 | 47.42 | 44.49 | 33.92 | 38.98 | 28.93 | 38.19 | 33.21 | 33.69 | 48.45 |
| The control activities selected and developed include a mix of controls, such as preventive and detective, i.e. manual and automatic. | 59.57 | 100.00 | 40.79 | 33.28 | 72.22 | 50.52 | 44.49 | 36.58 | 47.46 | 31.27 | 46.60 | 38.28 | 37.12 | 69.07 |
| Deadlines are set for the implementation of specific control activities. | 55.32 | 100.00 | 44.74 | 44.34 | 58.33 | 59.79 | 47.58 | 45.84 | 48.59 | 40.30 | 48.22 | 43.91 | 45.23 | 62.89 |
| Control activities in the organisation are documented (process plans, written procedures, etc.). | 80.85 | 100.00 | 55.26 | 47.70 | 88.89 | 69.07 | 59.03 | 51.33 | 75.14 | 43.31 | 64.40 | 54.52 | 52.34 | 85.57 |
| Undocumented control activities are carried out in the organisation, i.e. there are unwritten procedures that are applied. | 74.47 | 75.00 | 81.58 | 55.34 | 88.89 | 73.20 | 70.93 | 59.39 | 71.75 | 62.21 | 66.34 | 64.94 | 61.15 | 84.54 |
| Control activities exist at different levels in the organisation. | 85.11 | 100.00 | 75.00 | 61.63 | 94.44 | 86.60 | 79.74 | 65.91 | 73.45 | 54.52 | 75.40 | 63.56 | 65.16 | 88.66 |
| None of the above. | 4.26 | 0.00 | 7.89 | 17.34 | 0.00 | 5.15 | 6.17 | 14.79 | 7.91 | 15.72 | 9.71 | 12.73 | 14.14 | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Parts of the business processes requiring controls and activities have been identified. | 87.23 | 100.00 | 63.16 | 58.59 | 83.33 | 78.35 | 72.69 | 61.96 | 77.40 | 57.53 | 71.52 | 64.76 | 62.85 | 86.60 |
| Suitable staff (person profile) are identified for the selection, development, and implementation of control activities. | 68.09 | 75.00 | 57.89 | 52.95 | 75.00 | 74.23 | 65.64 | 55.92 | 66.10 | 48.33 | 59.22 | 54.35 | 55.42 | 71.13 |
| The selection and development of control measures is carried out for all risks for which management has decided to treat them in this way. | 63.83 | 100.00 | 47.37 | 40.22 | 61.11 | 61.86 | 45.81 | 42.80 | 48.02 | 38.80 | 44.98 | 42.07 | 42.56 | 55.67 |
| An assessment of the efficiency and effectiveness (efficacy/benefits and costs) of the different types of control measures is carried out. | 46.81 | 75.00 | 40.79 | 30.89 | 50.00 | 47.42 | 44.49 | 33.92 | 38.98 | 28.93 | 38.19 | 33.21 | 33.69 | 48.45 |
| The control activities selected and developed include a mix of controls, such as preventive and detective, i.e. manual and automatic. | 59.57 | 100.00 | 40.79 | 33.28 | 72.22 | 50.52 | 44.49 | 36.58 | 47.46 | 31.27 | 46.60 | 38.28 | 37.12 | 69.07 |
| Deadlines for the performance of certain control activities are set. | 55.32 | 100.00 | 44.74 | 44.34 | 58.33 | 59.79 | 47.58 | 45.84 | 48.59 | 40.30 | 48.22 | 43.91 | 45.23 | 62.89 |
| Control activities in the organisation are documented (process maps, written procedures, etc.) | 80.85 | 100.00 | 55.26 | 47.70 | 88.89 | 69.07 | 59.03 | 51.33 | 75.14 | 43.31 | 64.40 | 54.52 | 52.34 | 85.57 |
| Undocumented control activities are carried out in the organisation, i.e. there are unwritten procedures that are applied. | 74.47 | 75.00 | 81.58 | 55.34 | 88.89 | 73.20 | 70.93 | 59.39 | 71.75 | 62.21 | 66.34 | 64.94 | 61.15 | 84.54 |
| Control activities exist at different levels in the organisation. | 85.11 | 100.00 | 75.00 | 61.63 | 94.44 | 86.60 | 79.74 | 65.91 | 73.45 | 54.52 | 75.40 | 63.56 | 65.16 | 88.66 |
| None of the above. | 0.00 | 0.00 | 7.89 | 17.34 | 0.00 | 5.15 | 6.17 | 14.79 | 7.91 | 15.72 | 9.71 | 12.73 | 14.14 | 1.03 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The same person does not simultaneously perform two or more of the following duties: proposing, approving, reporting, and recording business changes (separation of duties). | 91.49 | 100.00 | 69.74 | 59.62 | 83.33 | 80.41 | 68.72 | 62.78 | 80.23 | 57.69 | 69.58 | 64.76 | 63.41 | 87.63 |
| In the event that it is not possible to implement adequate separation of duties in the organisation, an alternative control mechanism is introduced (e.g. increased supervision, a second pair of eyes, etc.). | 51.06 | 50.00 | 51.32 | 42.22 | 47.22 | 59.79 | 51.54 | 44.43 | 40.68 | 44.31 | 47.57 | 44.65 | 44.50 | 45.36 |
| The transaction/report is checked/reviewed before execution by a person who did not actually process or prepare the transaction ("four-eyes" principle"). | 87.23 | 100.00 | 84.21 | 75.39 | 86.11 | 76.29 | 76.65 | 76.20 | 79.10 | 59.53 | 72.49 | 66.42 | 73.10 | 85.57 |
| Procedures and rules are established to ensure that only authorised persons can access material, financial and other resources. | 91.49 | 100.00 | 88.16 | 81.95 | 91.67 | 89.69 | 89.87 | 93.62 | 81.36 | 72.07 | 77.99 | 75.28 | 80.97 | 93.81 |
| Assets are regularly reconciled with accounting data. | 100.00 | 100.00 | 88.16 | 84.88 | 94.44 | 93.81 | 92.07 | 86.54 | 83.62 | 82.11 | 86.41 | 83.58 | 85.60 | 96.91 |
| Plans are in place to ensure business continuity in the event of unforeseen circumstances (e.g. fire, flood, epidemic, power failure, state of war). | 55.32 | 75.00 | 51.32 | 60.27 | 75.00 | 65.98 | 77.97 | 62.09 | 71.75 | 50.17 | 59.22 | 56.27 | 60.25 | 73.20 |
| None of the above. | 0.00 | 0.00 | 3.95 | 5.26 | 0.00 | 1.03 | 1.76 | 4.50 | 1.69 | 5.85 | 2.91 | 4.34 | 4.45 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers given above to Principle 10 (Questions 14.1, 14.2 and 14.3) and taking into account the characteristics and needs of your organisation, assess whether the organisation selects and develops control activities appropriately: | 4.17 | 4.50 | 4.08 | 3.78 | 4.14 | 4.11 | 3.86 | 3.82 | 3.93 | 3.60 | 3.82 | 3.72 | 3.79 | 4.18 |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Principle 12  The organisation carries out control activities in accordance with the policies that define expectations and through the procedures by which those policies are implemented | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| The organisation has established policies and procedures (written and unwritten) that support the implementation of management decisions and instructions. | 93.62 | 100.00 | 80.26 | 82.01 | 91.67 | 89.69 | 90.31 | 83.49 | 90.40 | 84.62 | 86.08 | 85.98 | 84.28 | 92.78 |
| The organisation has established policies and procedures for business processes and standard activities of members that include control activities. | 85.11 | 100.00 | 67.11 | 63.09 | 91.67 | 81.44 | 76.21 | 66.21 | 75.71 | 56.52 | 72.17 | 64.11 | 65.54 | 88.66 |
| Procedures for key business processes are documented/written. | 91.49 | 100.00 | 71.05 | 75.66 | 86.11 | 81.44 | 80.18 | 76.72 | 83.62 | 69.73 | 76.38 | 73.89 | 75.82 | 88.66 |
| Procedures for key processes clearly define specific steps/actions and their sequence. | 91.49 | 100.00 | 72.37 | 66.99 | 88.89 | 81.44 | 74.45 | 69.38 | 77.97 | 56.69 | 67.74 | 63.28 | 67.45 | 87.63 |
| It is clear at which point in time, in which phase of the business process or transaction the control is carried out. | 89.36 | 100.00 | 63.16 | 56.86 | 80.56 | 78.35 | 61.67 | 59.52 | 68.36 | 48.33 | 61.81 | 55.44 | 58.23 | 81.44 |
| For each control activity, it is defined who is responsible and accountable for its implementation. | 87.23 | 100.00 | 65.79 | 65.31 | 86.11 | 74.23 | 70.93 | 67.07 | 75.14 | 56.19 | 70.55 | 63.38 | 65.90 | 86.60 |
| Competent and responsible persons carry out the control activities in a timely manner, i.e. they correct the errors/violations found during the implementation of the control activities. | 76.60 | 100.00 | 63.16 | 66.45 | 86.11 | 79.38 | 76.65 | 68.44 | 79.66 | 60.03 | 74.11 | 67.25 | 6806 | 84.54 |
| It is known how exceptions, i.e. cases of approved deviations from the established rule, are to be recorded and reported. | 48.94 | 100.00 | 35.53 | 38.62 | 47.22 | 49.48 | 40.09 | 38.77 | 38.42 | 30.94 | 29.45 | 31.73 | 36.53 | 45.36 |
| Control activities are reviewed regularly and redesigned as necessary | 57.45 | 100.00 | 48.68 | 39.78 | 55.56 | 61.86 | 55.95 | 43.27 | 45.76 | 40.30 | 45.63 | 42.71 | 43.09 | 58.76 |
| None of the above. | 0.00 | 0.00 | 14.47 | 8.29 | 0.00 | 7.22 | 5.29 | 7.85 | 4.52 | 9.53 | 6.15 | 7.75 | 7.82 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers given above to Principle 12 (Question 16.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately carries out control activities using policies and procedures: | 4.36 | 5.00 | 3.96 | 3.81 | 4.14 | 3.98 | 3.85 | 3.84 | 3.92 | 3.61 | 3.76 | 3.70 | 3.80 | 4.24 |

**4. INFORMATION AND COMMUNICATION**

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

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

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

1. **MONITORING (OVERSIGHT) AND EVALUATION**

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

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Principle 17  The organisation assesses the FMC's vulnerabilities and reports in a timely manner to those charged with taking corrective action, including senior management and the supervisory/management board | | | | | | | | | | | | | | |
|  | CENTRAL LEVEL | | | | | | | | LOCAL LEVEL | | | | TOTAL - ALL PFBs | PRIORITY PFBs |
|  | MINISTRIES with constituent admin. bodies | MSIOs | DBBs (other DBBs - without ministries and their constituent admin. bodies | IBBs | PEs | Other PFBs, (excluding PEs) | Users of RHIF funds | CENTRAL LEVEL – TOTAL | DBBs | IBBs | OTHER PFBs | LOCAL LEVEL - TOTAL |
| The organisation collects and analyses all information relevant to the FMC from all available sources (internal and external). | 74.47 | 100.00 | 68.42 | 63.96 | 83.33 | 76.29 | 61.23 | 64.92 | 68.93 | 61.37 | 66.34 | 64.02 | 64.64 | 74.23 |
| Information on identified deficiencies/weaknesses of the FMC is provided to management in a timely manner. | 68.09 | 100.00 | 52.63 | 51.98 | 72.22 | 65.98 | 50.22 | 53.13 | 54.24 | 52.17 | 52.75 | 52.68 | 52.99 | 62.86 |
| Information on identified deficiencies/weaknesses of the FMC is made available to the supervisory/management board. | / | 66.67 | 100.00 | 45.58 | 52.00 | 46.97 | 35.43 | 44.14 | / | 45.42 | 38.70 | 42.96 | 43.69 | / |
| The recommendations of the internal audit are taken into account. | 95.00 | 100.00 | 84.62 | 84.38 | 96.00 | 97.06 | 97.87 | 91.91 | 98.28 | 95.16 | 92.31 | 94.79 | 93.08 | 95.08 |
| The recommendations of the external audit are taken into account. | 92.00 | 100.00 | 84.62 | 84.38 | 97.06 | 98.18 | 90.24 | 90.00 | 99.33 | 91.38 | 95.40 | 95.63 | 93.53 | 96.30 |
| Information on identified deficiencies/weaknesses of the FMC is provided to those responsible and accountable for addressing the deficiencies/weaknesses of the FMC. | 59.57 | 100.00 | 52.63 | 36.64 | 69.44 | 60.82 | 40.09 | 39.58 | 53.67 | 38.29 | 46.93 | 43.27 | 40.75 | 61.86 |
| Deficiencies of the FMC are identified (errors, omissions, illogicalities, limitations, etc.), causes are analysed and determined. | 55.32 | 100.00 | 53.95 | 38.10 | 66.67 | 65.98 | 43.17 | 41.17 | 47.46 | 37.96 | 49.51 | 42.80 | 41.69 | 55.67 |
| Inadequate procedures/control activities are identified, and changes are proposed (modification of procedures, elimination of ineffective and inefficient control activities, introduction of new control activities). | 63.83 | 100.00 | 52.63 | 36.10 | 75.00 | 72.16 | 50.66 | 40.82 | 48.02 | 35.62 | 45.31 | 40.41 | 40.69 | 64.95 |
| Employees can contribute their suggestions for improving the FMC. | 87.23 | 100.00 | 72.37 | 62.60 | 75.00 | 69.07 | 63.88 | 64.07 | 79.66 | 60.54 | 71.84 | 66.88 | 64.96 | 83.51 |
| The organisation's response (appropriate action) to address FMC deficiencies/weaknesses is determined in a timely manner. | 55.32 | 100.00 | 46.05 | 33.66 | 55.56 | 58.76 | 39.21 | 36.54 | 43.50 | 36.62 | 40.13 | 38.75 | 37.24 | 55.67 |
| Accepted internal audit recommendations (if any) are implemented in a timely manner. | 95.00 | 100.00 | 78.95 | 80.63 | 92.00 | 94.12 | 93.62 | 86.08 | 94.83 | 85.48 | 85.71 | 88.15 | 86.92 | 93.44 |
| Accepted external audit recommendations (if any) are implemented in a timely manner. | 88.00 | 100.00 | 84.62 | 81.25 | 88.24 | 92.73 | 90.24 | 86.33 | 91.95 | 91.38 | 89.96 | 90.87 | 89.18 | 87.65 |
| Measures to address identified deficiencies/weaknesses of the FMC (not related to the implementation of the recommendations of the internal and/or external review) are implemented in a timely manner. | 68.09 | 100.00 | 50.00 | 38.37 | 61.11 | 65.98 | 43.17 | 41.42 | 61.58 | 41.81 | 52.10 | 47.97 | 43.50 | 61.86 |
| The implementation of measures to address deficiencies/weaknesses is monitored. | 78.78 | 100.00 | 56.58 | 48.62 | 72.22 | 69.07 | 58.59 | 51.76 | 64.41 | 51.51 | 58.58 | 55.63 | 52.99 | 74.23 |
| If appropriate actions to address deficiencies/weaknesses are not implemented in a timely manner, senior management is informed. | 63.83 | 100.00 | 47.37 | 38.70 | 63.89 | 67.01 | 51.54 | 52.41 | 50.28 | 43.31 | 49.84 | 46.31 | 43.65 | 62.89 |
| None of the above. | 2.13 | 0.00 | 21.05 | 21.73 | 2.78 | 5.15 | 10.57 | 19.21 | 3.95 | 15.22 | 7.12 | 11.07 | 16.63 | 3.09 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| In accordance with the answers given above to Principle 17 (Question 21.1) and taking into account the characteristics and needs of your organisation, assess whether the organisation adequately assesses and reports on the FMC's weaknesses: | 3.87 | 4.50 | 3.50 | 3.10 | 3.89 | 3.67 | 3.17 | 3.18 | 3.59 | 3.26 | 3.45 | 3.37 | 3.24 | 3.80 |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| IRREGULARITIES MANAGEMENT | | | | | |
| PFBs | Did you have a confirmed suspicion of irregularities? | Are the confirmed irregularities resolved? (only organisations that have had confirmed irregularities are eligible) | Confirmed irregularities are resolved: | | |
| inside the organisation | outside the organisation | inside and outside the organisation |
| MINISTRIES with constituent admin. Bodies | 10.64 | 66.67 | 20.00 | 0.00 | 80.00 |
| MSIOs | 0.00 | / | / | / | / |
| DBBs (other DBBs - without ministries and their constituent admin. bodies | 6.58 | 71.43 | 66.67 | 0.00 | 33.33 |
| IBBs | 4.01 | 69.38 | 68.07 | 0.84 | 31.09 |
| PEs | 30.56 | 100.00 | 66.67 | 0.00 | 33.33 |
| Other PFBs (excluding PEs) | 11.34 | 78.57 | 50.00 | 0.00 | 50.00 |
| Users of RHIF funds | 17.62 | 91.84 | 63.04 | 0.00 | 36.96 |
| CENTRAL LEVEL – TOTAL | 6.26 | 75.61 | 64.50 | 0.50 | 35.00 |
| DBBs | 8.74 | 80.00 | 84.21 | 0.00 | 15.79 |
| IBBs | 5.18 | 60.94 | 73.91 | 4.35 | 21.74 |
| OTHER PFBs | 9.71 | 81.58 | 62.86 | 0.00 | 15.79 |
| LOCAL LEVEL - TOTAL | 7.01 | 70.49 | 72.00 | 2.00 | 26.00 |
| TOTAL – ALL PFBs | 6.50 | 73.91 | 67.00 | 1.00 | 32.00 |

# Annex 3. Overview of PFBs that Established Internal Audit

**CENTRAL GOVERNMENT LEVEL**

**Table 1.** Number of established IA, systematised and filled internal auditor positions in PFB  
institutions at central level in 2022

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| PFBs | | Reports submitted | Normatively established IA | Functionally established  IA | Classified working posts | Post filled out |
| Central Level | Ministries with administrative bodies in the composition | 29 | 27[[30]](#footnote-30) | 19 | 118 | 64 |
| MSIOs | 4 | 4 | 4 | 38 | 28 |
| Other PFBs | 70 | 26 | 22 | 32 | 25 |
| IBBs[[31]](#footnote-31) | 983 | 17 | 13 | 13 | 13 |
| PEs at the central level | 39 | 31 | 28 | 125 | 91 |
| Other PFBs | 57 | 35 | 26 | 67 | 58 |
| Beneficiaries of RHIF | 173 | 71 | 24 | 114 | 74 |
| **Total** | **1355** | **211** | **136** | **507** | **353** |

IA is normatively established in 23 ministries and 4 administrations within ministries, and functionally in 15 ministries and in 4 administrations within the ministries, with 118 internal auditor positions systematised and 64 filled. IA is established in all MSIOs, both at normative and functional level; 32 internal auditor posts systematised, and 28 internal auditors perform IA function. In all other central level PFBs, except the ministries with the above mentioned 4 administrations in composition and MSIOs, the IA function has been established normatively in 180 users and functionally in 113 users; 507 positions have been systematised and audits are carried out by 353 internal auditors.

Based on the data on PFBs at central level, we can see that there has been a 8% increase in the number of normatively established IA functions, a 9% increase in the number of functionally established IA function, and a 1% increase in the number of systematised IA positions, as well as a 3% increase in the number of internal auditor positions filled in 2021 relative to 2020. This growth was mainly due to the growth in the RHIF fund users’ category, i.e., public healthcare facilities.

**MINISTRIES**

All ministries submitted their annual reports. In the ministries, a total of 77 posts were systematised for IA function, and the IA employs 44 internal auditors; compared to the previous year, the number of systematised posts increased by 15%, but the number of employed internal auditors decreased by 4%. In the Ministry of Human and Minority Rights and Social Dialogue and the Ministry of Public Investment, the IA function is not normatively defined, and in the Ministry of Rural Welfare and the Ministry of Science, Technological Development and Innovation, only one officer is systematised.

**Table 2.** IA function, by ministry, in 2022

|  |  |  |  |
| --- | --- | --- | --- |
| Name of the ministry | Normative IA | Functional IA | Number of internal auditors |
| Ministry of Finance | Yes | Yes | 3 |
| Ministry of Economy | Yes | Yes | 1 |
| Ministry of Agriculture, Forestry and Water Management | Yes | Yes | 2 |
| Ministry of Environmental Protection | Yes | No | 0 |
| Ministry of Construction, Transportation and Infrastructure | Yes | Yes | 2 |
| Ministry of Mining and Energy | Yes | Yes | 2 |
| Ministry of Domestic and Foreign Trade | Yes | No | 1 |
| Ministry of Justice | Yes | Yes | 3 |
| Ministry of Public Administration and Local Government | Yes | Yes | 2 |
| Ministry of Human and Minority Rights and Social Dialogue | No | No | 0 |
| Ministry of the Interior | Yes | Yes | 10 |
| Ministry of Defence | Yes | Yes | 4 |
| Ministry of the Foreign Affairs | Yes | No | 0 |
| Ministry of European Integration | Yes | Yes | 1 |
| Ministry of Education | Yes | Yes | 3 |
| Ministry of Health | Yes | Yes | 3 |
| Ministry of Labour, Employment, Veteran and Social Affairs | Yes | Yes | 2 |
| Ministry of Family Welfare and Demography | Yes | No | 0 |
| Ministry of Sports | Yes | Yes | 1 |
| Ministry of Culture | Yes | Yes | 4 |
| Ministry of Rural Welfare | Yes (one auditor) | No | 0 |
| Ministries Science, Technological Development and Innovations | Yes (one auditor) | No | 0 |
| Ministry of Tourism and Youth | Yes | No | 0 |
| Ministry of Information and Telecommunications | Yes | No | 0 |
| Ministry for Public Investment | No | No | 0 |

Functional IA unit has been established in 15, and only 7 of them employ at least three internal auditors, being the minimum prescribed by law. The reason given by the ministries for this state of affairs was the lack of suitable staff for redeployment within the organisation, low salaries in the public sector compared to the private sector for this volume of work, and natural attrition, which led to the departure of internal auditors from the public sector and made it difficult to recruit new auditors. Comparing the data with the previous year, despite the increase in the number of ministries, a slight decrease in the number of internal auditors employed can be observed in the category of ministries.

**LOCAL LEVEL**

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

| PFBs | | Reports submitted | Normative IA | Functional  IA | Systematised posts | Post filled out |
| --- | --- | --- | --- | --- | --- | --- |
| Local level | LSG DBBs | 136 | 82 | 55 | 178 | 114 |
| LSG IBBs [[32]](#footnote-32) | 321 | 0 | 0 | 0 | 0 |
| Other PFBs (PUCs, etc.) whose founder is the local government | 196 | 91 | 47 | 108 | 91 |
| **Total** | **653** | **173** | **102** | **286** | **205** |

Of the 136 reports received from APV, the City of Belgrade, cities, and municipalities, 82 LSG DBBs have a normatively established IA function and 55 LGU DBBs have a functionally established IR. The total number of systematised IA posts is 146, and the number of filled posts is 100.

According to the data presented, in the PFBs at the local self-government level, in 2022, compared to 2021, there is an increase of 6% in the number of IA functions established normatively and 15% in the number of IA functions established functionally, an increase of 12% in the number of systematised posts and 11% in the number of internal auditor posts filled.

As shown in Table 4, APV has produced a normative and functional IA function in accordance with the IA Rulebook. As for the cities, they have all submitted their annual reports for 2022. Of the cities that have submitted an annual report, 12 cities have not established a normative IA function in accordance with the IA Rulebook, i.e. IA unit with at least three systematised workplaces. In addition, 20 out of a total of 28 cities do not have a staffed IA unit with at least three internal auditors.

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

|  |  |  |  |
| --- | --- | --- | --- |
| Name of public funds beneficiary | Normative IA | Functional IA | Number of auditors |
| AP Vojvodina | Yes | Yes | 4 |
| The City of Belgrade | Yes | Yes | 13 |
| Novi Sad | Yes | Yes | 5 |
| Niš | Yes | Yes | 3 |
| Subotica | Yes | Yes | 2 |
| Kragujevac | Yes | Yes | 8 |
| Novi Pazar | Yes | Yes | 4 |
| Kruševac | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |
| Vranje | Yes | Yes | 2 |
| Kikinda | Yes (it is not in compliance with the IA Rulebook) | No | 0 |
| Pančeno | Yes | Yes | 2 |
| Sremska Mitorvica | Yes (it is not in compliance with the IA Rulebook) | Yes | 2 |
| Loznica | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |
| Pirot | Yes | Yes | 3 |
| Požarevac | Yes | Yes | 1 |
| Prokuplje | Yes | Yes | 2 |
| Jagodina | No | No | 0 |
| Užice | Yes | Yes | 5 |
| Zrenjanin | Yes | Yes | 3 |
| Bor | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |
| Valjevo | Yes | Yes | 2 |
| Čačak | No | No | 0 |
| Leskovac | No | No | 0 |
| Vršac | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |
| Kraljevo | Yes | Yes | 1 |
| Šabac | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |
| Smederevo | Yes (it is not in compliance with the IA Rulebook) | No | 0 |
| Sombor | Yes | Yes | 2 |
| Zaječar | Yes (it is not in compliance with the IA Rulebook) | Yes | 1 |

**NUMBER OF AUDITOR WITH PFBs**

Table 5 shows the total number of PFBs, at the level of the entire public sector that have a functional IA and at least one filled internal auditor position, i.e., 232 PFBs[[33]](#footnote-33). Expressed in percentages, 64% of PFBs have established the IA function with one internal auditor, 19% with two internal auditors, and 17% with three or more. Compared to the previous year, there was an increase in the category of IA units with two auditors, generated by the decrease in the number of IA units with three auditors, which speaks to the process of difficult recruitment of staff, either due to retirement, transfer to other positions or leaving the organisation.

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

| PFBs | | 1 auditor | 2 auditors | 3 and more auditors |
| --- | --- | --- | --- | --- |
| Central Level | Ministries with administrative bodies in the composition | 4 | 5 | 11 |
| MSIOs | 1 | 0 | 3 |
| Other PFBs | 8 | 4 | 2 |
| IBBs | 14 | 0 | 0 |
| PEs at the central level | 9 | 3 | 9 |
| Other PFBs | 22 | 2 | 4 |
| Beneficiaries of RHIF | 25 | 4 | 4 |
| **Total** | **82** | **18** | **33** |
| Local level | DBBs LSG | 34 | 8 | 6 |
| IBBs LSG | 0 | 0 | 0 |
| Other PFBs (PUCs, etc.) whose founder is the local government | 33 | 17 | 1 |
| **Total** | **67** | **25** | **7** |
| Total in the RS | | **149** | **43** | **40** |
| Total PFBs with filled IA posts | | **232** | | |

# 

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

(header of public funds beneficiary)

**ANNUAL REPORT ON AUDITS AND INTERNAL AUDIT ACTIVITIES**

For the year of 2022

**GENERAL SECTION**

|  |  |
| --- | --- |
| **1. GENERAL INFORMATION ON THE PUBLIC FUNDS BENEFICIARY:** | |
| Full name of public fund beneficiary and the address of head office: |  |
| Head of PFB (job title, first and last name): |  |
| Name of the internal audit unit /first and last name of internal auditor[[34]](#footnote-34): |  |
| Head of internal audit unit (job title, first and last name): |  |
| Telephone number of the internal audit unit/internal auditor: | Email address of the internal audit unit/internal auditor: |
| Unique identification number of public fund beneficiary (UNPFB) from the List of public fund beneficiaries |  |
| Total amount of planned expenses in the reporting period (for the public fund beneficiary), in RSD: |  |
| Total number of staff in positions envisaged in the staffing plan within the PFB[[35]](#footnote-35), as at 31 December |  |
| Total number of positions filled within the public fund beneficiary, as at 31 December |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **2. INFORMATION ON THE INTERNAL AUDIT UNIT AND INTERNAL AUDITORS** | | | | | | |
| 2.1. Internal audit is normatively established[[36]](#footnote-36): | | | | | | Yes  No |
| 2.2. If the answer is YES, state the title, number and date of the enactment: | | | | | | |
| 2.3. Specify the number of participants in the training for acquiring the professional title of certified internal auditor in the public sector:[[37]](#footnote-37)   * theoretical * theoretical and practical | | | | | | |
| 2.4. The following type of internal audit function is in place:   * 1. through the establishment of an independent internal audit unit   2. internal auditor   3. Establishment of joint internal audit unit for several PFBs * When an agreement has been signed with another PFB for establishing a joint internal audit unit, please state the name of the PFBs establishing a joint unit, as well as the number and date of the agreement:   1. Agreement on joint internal audit service with the other public funds beneficiary.   - When agreement has been signed with another PFB for the delivery of internal audit services, please state the name of the PFB providing these services, as well as the number and date of agreement:   * 1. none of the above | | | | | | |
| 2.5. Does the internal audit unit/internal auditor directly and exclusively report to the Head of PFB, at the organisational and functional level? | | | | | | Yes  No |
| 2.6. If NO, state to whom it reports and the reason why: | | | | | | |
| 2.7. If the PFB is a direct budget beneficiary responsible for indirect budget beneficiaries, does the internal audit unit, based on the risk assessment and in accordance with its work plan, perform the internal audit function in the indirect budget beneficiaries under its responsibility?[[38]](#footnote-38) | | | | | | Yes  No |
| 2.8. If the answer is NO, state the reason: | | | | | | |
| 2.9. Has the head of the internal audit unit been appointed? | | | | | | Yes  No |
| 2.10. If YES, does the appointed head of internal audit meet the requirements with regard to professional experience prescribed under Art. 22 of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011 and 106/2013). | | | | | | Yes  No |
| 2.11. Staffing level (fill rate) and pay grades for the internal audit unit/internal auditor positions (enter in numerical format): | | | | | | |
| Job title/post | Number of internal auditor positions systematised (i.e., envisaged) | Posts 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 internal auditors in the public sector[[39]](#footnote-39), for all internal audit employees in the reporting period – in the annex to this Report. | | | | | | |
| 2.12. Is performing internal audits the sole task of internal audit? | | | | | | Yes  No |
| 2.13. If NO, please specify which other tasks are performed by the IA and state the reason: | | | | | | |
| 2.14. Internal auditors have full, free, and unlimited right of access to: | | | | | | |
| а) all documentation and records | | | | | | Yes  No |
| b) data and information on all data carriers | | | | | | Yes  No |
| c) the manager of the public funds beneficiary | | | | | | Yes  No |
| d) staff (managers and employees) | | | | | | Yes  No |
| е) material assets | | | | | | Yes  No |
| 2.15. If the answer is NO, state the reason: | | | | | | |
|  | | | | | | |
| **3. COMPLIANCE WITH INTERNAL AUDIT STANDARDS AND METHODOLOGIES** | | | | | | |
| **Compliance with the Manual for Internal Auditors** | | | | | | |
| 3.1. Do internal auditors use the Manual for Internal Auditors developed by the Central Harmonization Unit? | | | | | | Yes  No |
| 3.2. Do internal auditors use other manuals, except for the Manual for Internal Auditors referred to in question 3.1.? | | | | | | Yes  No |
| 3.3. If the answer is YES, state the title of the manual and reason to use it: | | | | | | |
| 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  No |
| 3.5. If the answer is NO, state the reason: | | | | | | |
| **Internal Audit Charter** | | | | | | |
| 3.6. Did the Head of PFB and the head of IA unit/internal auditor sign the internal auditors’ charter? | | | | | | Yes  No |
| 3.7. If YES, please submit the charter as an annex to this report. | | | | | | |
| 3.8. If the answer is NO, state the reason: | | | | | | |
| **Compliance with internal audit standards and the Internal Audit Code of Ethics** | | | | | | |
| 3.9. Do internal auditors adhere to international internal audit standards in performing internal audits? | | | | | | Yes  No |
| 3.10. If the answer is NO, state the reason: | | | | | | |
| 3.11. Did all internal auditors sign the Internal Audit Code of Ethics? | | | | | | Yes  No |
| 3.12. Do internal auditors comply with the principles and rules of the Internal Audit Code of Ethics in their work? | | | | | | Yes  No |
| 3.13. If NO, state the reason and cases of non-compliance: | | | | | | |
| **Use of methodological tools of the Central Harmonization Unit** | | | | | | |
| 3.14. When conducting an internal audit, do you use any of the methodological tools listed below, which are available on the website of the Ministry of Finance – Central Harmonization Unit?  1)  Model for the internal quality review of the performance of internal audit units;  2)  Tools for auditing IPA funds of the European Union;  3)  Guidelines for auditing cross-sectoral programmes and projects – “horizontal audit”  4)  Tools for implementing IT system and IT system data security audits at PFBs | | | | | | |
| **Performance of internal audit** | | | | | | |
| 3.15. Was the internal audit strategic plan developed based on risk assessment? | | | | | | Yes  No |
| 3.16. If the answer is NO, state the reason: | | | | | | |
| 3.17. Was the internal audit strategic plan approved by the manager of the PFB in line with Art. 24 of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011 and 106/2013). | | | | | | Yes  No |
| 3.18. If the answer is NO, state the reason: | | | | | | |
| 3.19. Is the Internal Audit Strategic Plan available to all staff and executives? (forwarded individually, published in the organisation’s internal gazette, on its intranet, or website)? | | | | | | Yes  No |
| 3.20. Is the Annual Internal Audit Plan developed based on the internal audit strategic plan? | | | | | | Yes  No |
| 3.21. If the answer is NO, state the reason: | | | | | | |
| 3.22. Is the annual internal audit plan approved by the public funds beneficiary manager, pursuant to Art. 25 of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011 and 106/2013). | | | | | | Yes  No |
| 3.23. If the answer is NO, state the reason: | | | | | | |
| 3.24. Is the Annual Internal Audit Strategic Plan available to all staff and executives (forwarded individually, published in the organisation’s internal gazette, on its intranet, or website)? | | | | | | Yes  No |
| **Implementation of the annual internal audit plan**[[40]](#footnote-40) | | | | | | |
| 3.25. Total number of planned audits according to the annual plan: | | | | | |  |
| 3.26. Total number of audits (“on demand”) planned subsequently: | | | | | |  |
| 3.27. Total number of audits performed for which a final audit report was drawn up: | | | | | |  |
| 3.28. Reasons for failure to implement the planned number of assurance services (state the reasons): | | | | | |  |
| 3.29. Total number of consulting services for which reports were drafted: | | | | | |  |
| 3.30. Are the audit reports and consulting service reports regularly sent to the manager of the public funds beneficiary? | | | | | | Yes  No |
| 3.31. Does the responsible person in the audited entity complete and decide on the recommendations follow-up plan which lists the accepted recommendations and actions to be taken, persons responsible and deadlines? | | | | | | Yes  No |
| 3.32. If the answer is 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  No |
| 3.34. If the answer is NO, state the reason: | | | | | | |
| 3.35. Number of follow-up audits performed, out of the total number planned: | | | | | |  |
| 3.36. Number of follow-up audits on recommendations from the previous reporting period: | | | | | |  |
| **Number of recommendations made, and number of recommendations implemented in the reporting period** | | | | | | |
| 3.37. Number of recommendations made in audit reports[[41]](#footnote-41): | | | | | |  |
| 3.38. Number of rejected recommendation in audit reports: | | | | | |  |
| 3.39. Number of recommendations complied with: | | | | | |  |
| 3.40. Number of recommendations with an implementation deadline after 31 December 2022 | | | | | |  |
| 3.41. Number of recommendations with a compliance deadline of 31 December 2022 | | | | | |  |
| 3.42. If there are any recommendations not implemented past the deadline, state the reasons: | | | | | | |
| **Implementation of recommendations from the previous reporting period:** | | | | | | |
| 3.43. Number of recommendations provided in the previous reporting period that were implemented in the previous and in this reporting period, cumulatively: | | | | |  | |
| 3.44. If there are any recommendations from the previous period past the implementation deadline in this reporting period, state the reasons for non-performance: | | | | | | |
| **Audit Committee** | | | | | | |
| 3.45. Has an audit committee been established as an advisory body on internal audit issues? | | | | | | Yes  No |
| 3.46. Is the audit committee composed of independent members, with appropriate professional qualifications? | | | | | | Yes  No |
| 3.47. Does the audit committee examine and advise on the strategic and annual internal audit plan before approving the plan? | | | | | | Yes  No |
| 3.48. Does the audit committee review and provide advice on the implementation of the annual internal audit plan? | | | | | | Yes  No |
| 3.49. Specify the duties of the audit committee: | | | | | | |
| **Continuous professional development of certified internal auditors**[[42]](#footnote-42) | | | | | | |
| 3.50. 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 Development of Internal Auditor in the Public Sector (“Official Gazette of the RS”, no. 15/2019)? | | | | | Yes  No | |
| **Internal audit unit performance evaluation:**[[43]](#footnote-43) | | | | | | |
| 3.51. Has the head of internal audit established a programme for assessing the quality of the performance of the internal audit unit? | | | | | Yes  No | |
| 3.52. Does the head of internal audit carry out internal reviews (continuous reviews and periodic self-assessments) pursuant to Art. 19(2) of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011 and 106/2013). | | | | | Yes  No | |
| 3.53. If the answer is NO, state the reason: | | | | | | |
| 3.54. Was an external performance review carried out in the PFB in the last five years in accordance with Art. 19(3) of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/2011 and 106/2013). | | | | | Yes  No | |
| **Recommendations from the Consolidated Annual Report for the previous year**[[44]](#footnote-44) | | | | | | |
| 3.55. Are you acquainted with the content of the recommendations made to public funds beneficiaries in the Consolidated Annual Report for the 2021? | | | | | Yes  No | |
| 3.59. Are you implementing the recommendations provided in the internal audit field in the Consolidated Annual Report for the previous year that concern your organisation? | | | | | Yes  No | |
| 3.60. If the answer is NO, state the reason: | | | | | | |
| **Overview of audits and consulting services performed** | | | | | | |
| An overview of audits and consulting services performed should be presented in the **SPECIAL SECTION** | | | | | | |
|  | | | | | | |
| **4. PROPOSALS FOR THE DEVELOPMENT OF INTERNAL AUDIT** | | | | | | |
| 4.1. Briefly state which activities you planned or implemented for the development of internal audit in your organisation: | | | | | | |
| 4.2. Your proposals for the development and improvement of internal audit (general): | | | | | | |
| **NOTES:** | | | | | | |
| **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): | | | | | | |

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| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  (signature of the head of the internal audit/internal auditor) | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  (signature of the manager of the public funds beneficiary and stamp) |

**SPECIAL PART**

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| **1. OVERVIEW OF ASSURANCE SERVICES PERFORMED (AUDITS)**[[45]](#footnote-45) | | | | | | | | | | |
| List all audits performed in the reporting period along with the number of recommendations by type of recommendation and key recommendations for each audit. | | | | | | | | | | |
| Number, date and audit title: | | | | | | | | | | |
| Number of recommendations per recommendation type[[46]](#footnote-46): | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | | Total |
|  |  |  |  |  |  |  |  |  | |  |
| Recommendations:[[47]](#footnote-47) | | | | | | | | | | |
|  | | | | | | | | | | |
| Audit number, date and name: | | | | | | | | | | |
| Number of recommendations per recommendation type | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | |
|  |  |  |  |  |  |  |  |  |  | |
| Recommendations: | | | | | | | | | | |
|  | | | | | | | | | | |
| Number, date and audit title: | | | | | | | | | | |
| Number of recommendations per recommendation type: | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | |
|  |  |  |  |  |  |  |  |  |  | |
| Recommendations: | | | | | | | | | | |
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| **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. | | | | | | | | | | |
| Number, date and audit title: | | | | | | | | | | |
| Number of recommendations per recommendation type: | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | | Total |
|  |  |  |  |  |  |  |  |  | |  |
| Recommendations: | | | | | | | | | | |
|  | | | | | | | | | | |
| Number, date and audit title: | | | | | | | | | | |
| Number of recommendations per recommendation type | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | |
|  |  |  |  |  |  |  |  |  |  | |
| Recommendations: | | | | | | | | | | |
|  | | | | | | | | | | |
| Number, date and audit title: | | | | | | | | | | |
| Number of recommendations per recommendation type: | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | |
|  |  |  |  |  |  |  |  |  |  | |
| Recommendations: | | | | | | | | | | |
|  | | | | | | | | | | |

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| **3. OVERVIEW OF CONSULTING SERVICES PROVIDED**[[48]](#footnote-48) |
| List all consulting services provided in the reporting period, with a brief description from the report on consulting services. |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |

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| **4. OVERVIEW OF CONSULTING SERVICES PROVIDED (table can be duplicated)** |
| List all consulting services provided in the reporting period, with a brief description from the report on consulting services. |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
|  |
| Number, date, and title of the advisory service report: |
| Brief description from the advisory service report: |
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| **5. LIST OF INTERNAL AUDIT STAFF**  **(new table cells can be added if necessary)**[[49]](#footnote-49) | | | | |
| **No.** | **First name** | **Last name** | **Working Post Title** | **Number of certificates of certified public sector internal auditors** |
| 1. |  |  |  |  |
| 2. |  |  |  |  |
| 3. |  |  |  |  |
| 4. |  |  |  |  |
| 5. |  |  |  |  |
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| 7. |  |  |  |  |
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| 9. |  |  |  |  |
| 10. |  |  |  |  |
| 11. |  |  |  |  |

# Annex 5. Statement on Internal Controls

*Name of public funds beneficiary* Annex 1a

Statement on Internal Controls for *year*[[50]](#footnote-50)

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *year* *Name of public funds beneficiary* , as well as internal audit report, report of the State Audit Institution, external audit report[[51]](#footnote-51), for *year*, as well as other available information

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

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

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| --- | --- |
| In *place*,  *date* | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  (signature of a head  of public funds beneficiary)  *First and last name of a PFB Head*  *Title of a position of a PFB Head* |

*Title of public fund beneficiary* Annex 1b

Statement on Internal Controls for *year*[[52]](#footnote-52)

Pursuant to the Rulebook on joint criteria and standards for establishment, functioning and reporting on the financial management and control system in the public sector, and based on the performed self-assessment from the Internal Control Self-assessment Questionnaire which is a part of the Annual Report on the Financial Management and Control System for *year* *Name of public funds beneficiary* , as well as internal audit report, report of the State Audit Institution, external audit report[[53]](#footnote-53), for *year*, as well as internal audit report, report of the State Audit Institution, external audit report

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

hereby declare that I have acquired reasonable assurances of the level of compliance of the financial management and control system with international internal control standards , and that some weaknesses[[54]](#footnote-54) were identified in the internal control system that will be eliminated as soon as possible.

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

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| --- | --- |
| In *venue*,  *date* | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  (signature of a head  of public funds beneficiary)  *first and last name of a PFB Head*  *Title of a position of a PFB Head* |

# Annex 6. Recommendations from the EC Serbia Report 2022

The CHU regularly monitors the implementation of recommendations made by the EC in the frame of the process of accession in the context of Chapter 32 – Financial control. Of the 9 recommendations, the monitoring of 7 falls under the responsibility of the CHU and is directly related to the implementation status of the PIFC. Other recommendations do not fall under the direct responsibility of the CHU, but the CHU actively participates in them. The most important recommendation for PIFC for 2022 are the following:

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| **Recommendation 1** | **MoF should continue to actively participate in the measures to implement managerial accountability.** |
| **Status** | Under implementation, continuous. |
| **Follow-up** | MoF is an active member of the Operational group for managerial accountability and is actively engage in the process of preparation of the Analysis of the status and Roadmap for the improvement of managerial accountability. Likewise, the MoF will have its representative in the WG of the Government which is under establishment. |
| **Recommendation 2** | **Expand the implementation of peer reviews of the quality of the IA function among users of public funds and ensure sustainability by adopting regulations to simplify (facilitate) and standardise the process.** |
| **Status** | Implementation in progress. |
| **Follow-up** | For the reporting period covering 2022, six quality assessments of the work of IA were carried out, one of which followed the peer review methodology.  The quality assessment was conducted in the following organisations: RHIF, PDIF, NEA, MPALG (peer review), MoI, MAFWM. The adoption and implementation of the rulebook to prescribe the monitoring of the work of IA is directly related to the provision of a sustainable model for peer review financing. |
| **Recommendation 3** | **Ensure full coherence of PIFC legal basis with the horizontal legal framework** |
| **Status** | Implementation in progress. |
| **Follow** | An expert in the field of PIFC was commissioned to analyse the consistency of the rules from the field of PIFC with the horizontal legal framework |
| **Recommendation 4** | **Establish an efficient IA function in all central budget institutions - establish internal audit units and replenish capacity (repeated recommendation from the 2021 EC Report).** |
| **Status** | Implementation in progress. |
| **Follow-up** | At the central government level, the insufficient number of auditors in the ministries is particularly striking. The status of staffing at IA at the PFBs is regularly monitored through the IA reports, and CAR makes recommendations for the establishment and staffing of IA capacities at the PFBs. CHU is, within the framework of the PFMR for 2021-2025, determined to continue the already ongoing activities aimed at developing and implementing an improved process of certification of internal auditors, a more efficient organisation of IA in the public sector. The CHU is continuously working to systematically improve the position of internal auditors and to increase the attractiveness of the professions and the competitiveness of working conditions. An amendment to the regulations is foreseen that would accelerate this process. |
| **Recommendation 5** | **Implement the IA recommendations in a timely manner and continue to work on ensuring the quality of internal audit (repeated recommendation from the 2021 EC Report).** |
| **Status** | Implementation in progress. |
| **Follow-up** | In order for the recommendations of IA to be implemented in a timely manner, it is important that managers are aware of the importance and role of IA. The CHU is actively working to increase the knowledge and awareness of managers and staff about the importance of the PIFC through training and methodological materials. The CHU has improved the guidelines for internal assessment of the quality of IA work and the model for internal assessment of the quality of IA work and made them available on the MoF/CHU website.  The CHU also regularly monitors the CAR's implementation of the recommendations from IA at the PFBs. Of the total 6,488 recommendations made in 2022, all PFBs implemented a total of 3,527 recommendations, representing 54% of the total recommendations made.  Looking at the individual categories of PFBs, it can be seen that the MSIOs continue to show a positive trend in the implementation of recommendations. Compared to the previous year, the MSIOs' rate of implemented recommendations remained high at 85%. This indicator speaks of MSIOs’ management high awareness of the importance of IA and its reports and recommendations to management and the organisation.  The highest percentage of unimplemented recommendations is found in the category of ministries with constituent administrative bodies, indicating insufficient understanding of the importance of addressing identified weaknesses in business processes. In addition, a new Government with a new structure of ministries was constituted at the end of 2022, so some of the recommendations could not be implemented due to changes in responsibility. |
| **Recommendation 6** | **Improve capacity to implement internal control standards, including risk management, at central and local levels and incorporate elements of internal control into the administrative culture of the public sector (repeated recommendation from the 2021 EC Report).** |
| **Status** | Implementation in progress. |
| **Follow-up** | The annual reports submitted by the PFBs serve to monitor whether users are aware of the CHU's recommendations from CAR and whether the CHU's recommendation to improve the risk management segment is implemented within the organisation.  Of the total number of PFBs that submitted reports, 73.21% stated that they were familiar with the content of the recommendations to further develop and improve the FMC system in the public sector made in the CAR for the past year. However, the implementation of the recommendations regarding the improvement of the risk management area, the additional allocation of adequate resources for the development and improvement of the FMC system and the regular updating of the APs is not sufficient and further improvements are needed in this area.  CHU will implement further actions to improve PFBs risk management outcomes through direct project support under PAR activity 4.1 Improving the FMC system in public sector institutions targeted by activity 4.1.3 Improving risk management in the PFBs priority group at central level. Capacities at the central level will also be improved through the implementation of the activity 4.1.4 Development of practical methodological tools / financial management and control knowledge products adapted to the specifics of certain significant groups of indirect IBBs at central level (selected departments). The following activity is foreseen at the local level 4.1.5 Support to the establishment and enhancement of the FMC system at local level. |
| **Recommendation 7** | **Improve the use of the CHU annual report as a tool to improve PIFC and ensure its timely publication** |

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| **Status** | Complied with (to the extent possible) |
| **Follow-up** | All the most important categories of PFBs in accordance with the list of PFBs of the Treasury Administration are included in the analysis of the status of the FMC and IA carried out by the CHU, which also identifies weaknesses, and provides recommendations for the establishment and improvement of the FMC system and IA activities at PFBs. The CAR is adopted by the Decision of the Government and previously considered by the relevant committees of the government. The Decision of the Government adopting the CAR provides a summary of the main recommendations submitted to the main PFBs for implementation.  The report is complex, detailed and based on advanced and extensive analysis. Its current appearance is the result of EC recommendations and the work with SIGMA, as well as of continuous improvements made by the CHU. This is the reason why its preparation takes a long time. The introduction of the electronic reporting application resulted in the acceleration of the preliminary data processing and, in parallel, in the further improvement of the analysis. Reporting on the FMC status for 2022 has been improved with new, i.e. Changed form of the FMC Report. The of the FMC structure and method of completing the FCM report have been changed, enabling users to efficiently and objectively assess the application of the principles of the COSO framework in their organisation.  It may be that a faster production of the report would be possible if the deadline for submission by PFBs was brought forward, which is not possible due to the financial reporting timetable and the overlap this creates. Considering that almost compliance with all recommendations require more than one year and that the report follows the situation in the PIFC, which is a slow process that is inevitable, speeding up its publication would not bring much. |
| The main recommendations of EC for the year 2022, which CHU is actively involved in implementing, but is not the main contributor to the activity: | |
| **Recommendation 8** | **Address weaknesses in the management of performance and lines of accountability between independent bodies and their parent institutions, as part of existing efforts under the public administration reform framework (repeated recommendation from the 2021 EC Report).** |
| Status | Implementation in progress. |
| Follow-up: | In developing the roadmap for improving managerial accountability, it was proposed to address the key elements of this issue in this document and raise them to the level of WG within the Government. Work on the roadmap for this area was a prerequisite, so activities on this matter were postponed in line with the expected formation of the government WG. For detailed information, please refer to Section [3.2.2 Improvement of the Managerial Accountability Concept](#_3.2.2_Унапређење_концепта). |
| **Recommendation 9** | **Embed managerial accountability in administrative culture (repeated recommendation from the 2021 EC Report).** |
| Status | Implementation in progress. |
| Follow | For detailed information, please refer to Section [3.2.2 Improvement of the Managerial Accountability Concept](#_3.2.2_Унапређење_концепта). |

**Annex 7. Recommendations from the CAR on PIFC for 2021**

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

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| **Recommendation 1** | **Awareness among PFB leaders about the importance of setting up the FMC system as per the COSO framework is crucial for the effective establishment/development of the system. It is necessary to secure and allocate adequate resources, especially in terms of staff time and work organisation, and to use the FMC manual and other methodological guidelines produced by the CHU (available on the MoF/CHU website) to achieve and demonstrate through regular reporting on the COSO standards applied in their organisations. This recommendation applies primarily to PFBs that do not yet report on the FMC system and that fall into one of the following categories of PFBs: DBBs of the RS, LSGs, PEs but also all other PFBs with more than 250 employees.** |
| **Status** | Multiannual recommendation, partially implemented. |
| **Follow-up** | In 2022, CHU's focus was on improving communication with PFBs and providing support in the area of PIFC. The focus was on trainings for leaders organised at local level and on assessing the quality of the state of FCM at PFBs. For the reporting year 2022, electronic reporting is fully operational, and the user guide (written and electronic) produced by CHU has been of great help to users in completing and submitting their reports. In addition, they were supported by CHU representatives who provided them with all possible assistance during the reporting period. Many PFBs have signed documents electronically, which was made possible in 2021. The form of the FMC report for 2022 has been improved, and the structure and method of completing the report have been changed, enabling users to efficiently and objectively assess the application of the principles of the COSO framework in their organisation.  In 2022, the number of reports submitted has increased significantly compared to all previous reporting cycles. The most important institutions continue to report regularly on their FMC systems, but there are exceptions. Letters were sent to the priority group of PFBs informing them of the obligation to submit annual reports on FMC and IR as per the Budget System Law, and that they can download the self-study materials posted on the MoF/CHU website, where user instructions for electronic submission of reports have also been posted.  During the first quarter of 2023, training was provided in relation to the annual reporting of the status of the PIFC for 2022. Instructions were given on how to prepare and submit the report. The trainings were held in Novi Sad, Niš and Belgrade. During the trainings, instructions were given on how to fill in the reports correctly and objectively, and emphasis was placed on the nature and importance of self-assessment through reports, which are the best tool for monitoring the construction and development of the FMC system.  The highest percentage of using the Guide in the field of FMC was found in the group of MSIOs and in the group of PFs and ministries with constituent administrative bodies. The group of PFBs that indicated in their annual reports that they have the lowest percentage of application of CHU Guidelines are IBBs at both central and local levels with the exception of the implementation of Guidance on FMC for small PFBs. In the case of the PFBs, of the CHU methodological materials, the guidelines on risk management and the guidelines on the management of irregularities were the most used in the establishment of FMC, while the guidelines on delegation were the least used.  The largest percentage of PFBs at central level that indicated that they do not use any of the available methodological materials for setting up and developing FMC comes from the group of RHIF beneficiaries, while at local level it is IBBs. |
| **Recommendation 2** | **The most significant PFBs that still do not report to the CHU on the established FMC system should participate in reporting as soon as possible and start improving the FMC system in their organisation by striving to comply with the COSO principles as set out in the FMC manual as well as other methodological tools produced by the CHU.** |
| **Status** | Multiannual recommendation, partially implemented. |
| **Follow-up** | The Budget System Law requires all PFBs to report annually on the status of the FMC.  The total expenditure and costs of all DBBs at the RS level (ministries with administrative bodies, judicial bodies, directorates, offices, agencies, institutes, services...) included in the CAR for 2022 account for 98.80% of the total expenditure and expenses of the RS budget for 2022.  The cities that submitted the FMC report manage 99.35% of the total realised expenditure of the city budget, and the municipalities that submitted the FMC report manage 91.07% of the total realised expenditure of the municipal budget[[55]](#footnote-55). The PEs at the central level of the RS, which submitted the FMC report, manage 99.98% of the total revenues of the PE group. Other PFBs at the local level (PEs/PUCs) that submitted the FMC report manage 88.42% of the total revenue of the mentioned category The institutions of AP Vojvodina that submitted the FMC report manage 99.96% of the total provincial budget.  Although the most important institutions in the RS (which also account for the majority of the RS budget) regularly report to the CHU on the status of their FMC systems, the regulations require all PFBs in the RS to report to the CHU. Among the group of main PFBs, some cities and PEs did not submit reports on the status of their FMC systems.  For 2022, the following did not submit a FMC report:  1) PE “Nacionalni park Kopaonik”, Kopaonik;  2) Park prirode “Mokra Gora” d.o.o, Mokra Gora  as well as the City of Prokuplje, while Smederevo and Loznica, which received a recommendation in the last CAR, have fulfilled their legal obligation and submitted an annual report this year.  The rest of this category consists of ministries and MSIOs that have submitted their annual FMC reports. |
| **Recommendation 3** | **The most important PFBs should improve their capacity and lead by their own example, demonstrating the positive impact and value created by internal controls.** |
| **Status** | Multiannual recommendation, implemented on a continuous basis. |
| **Follow-up** | Priority PFBs, when it comes to producing key documents, has improved the level of organisational set-up of the FMC system in the past period. The percentage of organisations from this group that have business process maps is 82.61% in 2022, a growth of 16.36%. Risk register work was completed by 78.26% of the priority PFBs. AP was implemented in 57.05% of all PFBs, i.e. 52.33% at central level and 68.12% at local level. While 100% of organisations in the MSIO category have adopted the stated planning document, in the case of ministries with their administrative bodies, the situation can still be described, bearing in mind their importance, as unsatisfactory (58.54%). In PEs, AP exists in two thirds of the institutions (75.00%). |
| **Recommendation 4** | **With regard to the category of ministries, it is necessary to increase the level of establishment of the FMC system in the coming period. In this sense, it is necessary for the individual ministries to prepare basic documents with the help of the FMC manual and other methodological guidelines prepared by the CHU:**  **By Decision 05 Number: 400-6711/2022 of 1 September 2022, the Government ordered that**  **Business Process Maps** should be compiled by:  The Ministry of the Interior, the Ministry of Rural Welfare, the Ministry of Family Welfare and Demography, the Ministry for Human and Minority Rights and Social Dialogue, the Ministry of Education, Science and Technological Development, the Ministry of Agriculture, Forestry and Water Management and the Ministry of Foreign Affairs.  **Risk Management Strategy:** Ministry of the Interior, Ministry of Agriculture, Forestry and Water Management, Ministry of Foreign Affairs, Ministry for Human and Minority Rights and Social Dialogue, Ministry for Family Welfare and Demography and Ministry for Rural Welfare.  **Risk Register**: Ministry of Justice, Ministry of the Interior, Ministry of Rural Welfare, Ministry of Family Welfare and Demography, Ministry for Human and Minority Rights and Social Dialogue, Ministry of Education, Science and Technological Development, Ministry of Agriculture, Forestry and Water Management and Ministry of Foreign Affairs. |
| **Status** | Partially implemented recommendation. |
| **Follow-up** | According to the annual reports for 2022, business process maps have been produced by the Ministry of Agriculture, Forestry and Water Management, while the other ministries mentioned above have not yet produced business process maps. It should be noted that the Ministry of Education and the Ministry of Science, Technological Development and Innovation are now separate, autonomous organisations under the new Law on Ministries.  **Risk Register** was prepared by the Ministry of Justice, while the other ministries listed in the government's decision did not.  **Risk Management Strategy** was not adopted by the following ministries listed in the government's decision of 2021: Ministry of the Interior, Ministry of Agriculture, Forestry and Water Management, Ministry of Foreign Affairs, Ministry for Human and Minority Rights, Ministry for Family Welfare and Demography and Ministry for Rural Welfare e adopted the Risk Management Strategy. |
| **Recommendation 5** | **It is necessary for the following PE to make with the help of the FMC manual and other methodological guidelines produced by the CHU:**  **- Business Process Maps:** PE “Nacionalni park Fruška Gora”, Železnice Srbije a.d., PE “Stara Planina”, PWMC “Srbijavode”, PE “Mreža - Most”, PE UCE “Resavica”, Državna lutrija Srbije, d.o.o., “Metohija”, d.o.o. Beograd and Tvrđava Golubački grad.  **- Risk Management** **Strategy:** “Aerodrom Srbije” d.o.o., PE “Nacionalni park Fruška Gora”, Železnice Srbije a.d., PE “Stara Planina”, PE “Srbijavode”, PE “Mreža - Most”, “Državna lutrija Srbije”, d.o.o., PE “Elektroprivreda Srbije”, “Elektrodistribucija Srbije” d.o.o.,Tvđava Golubački grad and “Srbija voz”, a.d, and  **- Risk register:** Transport Srbija d.o.o., PE “Nacionalni park Fruška Gora”, Železnice Srbije a.d., PE “Stara Planina”, PE “Srbijavode”, PE “Mreža - Most”, “Državna lutrija Srbije”, d.o.o., “Javno preduzeće za skloništa”, PE “Elektroprivreda Srbije”, Tvđava Golubački grad and “Srbija voz”, a.d. |
| **Status** | Partially implemented recommendation. |
| **Follow-up** | The following PEs mentioned in the Decision of the Government did not even manage to produce the following in 2022:  - **Business Process** **Maps:** PE “Mreža - Most”, “Državna lutrija Srbije”, d.o.o. Beograd,“Metohija”, d.o.o. Beograd and D.o.o. Tvrđava Golubački grad Golubac.  **- Risk Registers** are still not in place in the following PEs: PE “Stara Planina” Knjaževac, PE “Mreža - Most”, Državna lutrija Srbije”, d.o.o. Beograd, Joint-stock company “Elektrodistribucija Srbije“ БBeograd, Tvrđava Golubački grad Golubac and “Srbija voz”, a.d.  - The following PEs did not adopt a **Risk Management Strategy**: “Državna lutrija Srbije”, d.o.o. Beograd,“Elektrodistribucija Srbije d.o.o. Beograd, Tvrđava Golubački grad Golubac and “Srbija voz”, a.d. |
| **Recommendation 6** | **In the category of cities, the following cities should create and adopt using the FMC rulebook and other methodological guidelines:**  **- Business Process Maps:** Kruševac, Leskovac, Valjevo.  **- Risk register** Valjevo, Vršac, Zaječar, Niš, Novi Pazar and Pančevo.  **- Risk Management Strategy:** Vršac, Novi Pazar and Pančevo.  **-.** |
| **Status** | Partially implemented recommendation. |
| **Follow-up** | **Business Process Maps** were not compiled by the following cities mentioned in the Decision of the Government: Leskovac, Valjevo.  **Risk Registers** are still not in place in the following cities: Novi Pazar, Zaječar.  **Risk Management Strategy** is not in place in the City of Novi Pazar. |
| **Recommendation 7** | **PFBs must make continuous efforts to improve risk management. To this end, PFBs should use the guidelines and tools that have been developed and improved during 2018 and 2019. In this sense, PFBs should first adopt a risk management strategy and then, as part of the risk management process, establish a risk register and update it regularly. It is necessary to put in place control measures to reduce risk to an acceptable level, especially as this obligation is also provided for in the statutes detailing the FMC system.** |
| **Status** | Multiannual recommendation, implemented on a continuous basis |
| **Follow-up** | Article 7 of the FMC Rulebook requires PFBs to adopt a risk management strategy and update it every three years or in case of material changes in the control environment. Almost half of the PFBs (55.39%) have adopted the risk management strategy, which is significant progress. OMISs (100%) and PEs (88.89%) stand out as positive examples, while there is also an increase in the preparation of the risk register (9.41% in the group that reports regularly).le. The work on compiling the risk register was confirmed by 78.26% of the priority PFBs. Overall indicators at central level are worse than at local level, which can be explained by the poor performance of a large number of IBBs (mainly schools and social welfare centres, from which a higher proportion of annual reports come). The CHU is constantly striving to improve the methodological material that supports PFBs in the establishment and development of the FMC system. Based on the annual reports submitted from year to year, the CHU analyses the level of implementation of these guidelines. |
| **Recommendation 8** | **PFBs should regularly update their action plans to continuously improve their FMC system. Specifically, this means that in addition to the self-assessment questionnaires that PFBs fill-in annually, they should identify, among other things, the segments of the FMC system that should be improved in the coming period based on the scores obtained.** |
| **Status** | Multiannual recommendation, implemented on a continuous basis. |
| **Follow-up** | An action plan was adopted by 57.05% of all PFBs, specifically, 52.33% at central and 68.12% at local level. While 100% of organisations in the MSIO category have adopted the stated planning document, in the case of ministries with their administrative bodies, the situation can still be described, bearing in mind their importance, as unsatisfactory (58.54%). In two-thirds of PEs there are AP (75.00%). There is a suspicion that PFBs activities related to AP are perceived as one-off rather than continuous. This document, in addition to its use in the implementation of FMC, together with the regular implementation of the self-assessment, represents one of the most useful tools for improving the system.  An increase of 11.44% and 12.53%, respectively, was recorded in the part of the organisational establishment of the FMC system, which entails the appointment of FMC managers and setting up WGs. Even greater progress was noted in the elements related to FMC implementation and development, such as the adoption of an action plan (19.25%) and a risk management strategy (18.41%). The number of organisations that have business process maps has grown by as much as 26.92%, while a tangible increase was recorded in the compilation of risk registers (9.41%). |
| **Recommendation 9** | **All PFBs should use the FMC Manual and the extensive methodological tools in FMC and managerial accountability prepared and published by the CHU.** |
| **Status** | Multiannual recommendation, implemented on a continuous basis. |
| **Follow-up** | The percentage of PFBs using the FMC manual as a material for building and developing FMC is growing and is 79.68% in 2022. The highest percentage of using the Guide in the field of FMC was found in the group of MSIOs and in the group of PFs and ministries with constituent administrative bodies. The group of PFBs that indicated in their annual reports that they have the lowest percentage of application of CHU Guidelines are IBBs at both central and local levels, with the exception of the implementation of Guidance on FMC for small PFBs. Of all the CHU methodological materials, the PFBs, risk management guidelines and irregularity management guidelines were the most used, while the guidelines on delegation were the least used.  The largest percentage of PFBs at central level that indicated that they do not use any of the available methodological materials for setting up and developing FMC comes from the group of RHIF beneficiaries, while at local level it is IBBs. |
| **Recommendation 10** | **In accordance with Article 82 paragraph 1. of the Budget System Law, all PFBs should establish the IA function, comply with the prescribed systematisation (internal staff establishment plan), number of staff and staffing of internal auditor posts in accordance with regulations, risks, complexity of operations and the amount of funds they manage. Possession of a certificate for certified internal auditors in the public sector should not be listed in the internal systematisation as a prerequisite for hiring an internal auditor. However, internal auditors must meet the requirements for obtaining this certificate, specifically: at least three years of experience in auditing, internal control, financial control or accounting and finance. When auditors are entrusted with their task, they apply for training to become a certified internal auditor in the public sector. You can download the job descriptions of the internal auditors from the MoF website:** [**https://www.mfin.gov.rs/o-ministarstvu/interna-revizija**](https://www.mfin.gov.rs/o-ministarstvu/interna-revizija)  **- Priority:**  **● The Ministry of Youth and Sports, the Ministry of Environmental Protection, the Ministry of Foreign Affairs, the Ministry of European Integration, the Ministry of Mining and Energy, the Ministry of Economy, the Ministry of Trade, Tourism and Telecommunications, the Ministry of Construction, Transport and Infrastructure, the Ministry of Public Administration and Local Government and the Ministry of Labour, Employment, Veterans and Social Affairs should select or recruit suitable staff from existing human resources to fill internal auditor positions as soon as possible;**  **● The Ministry of Human and Minority Rights and Social Dialogue, the Ministry of Family Welfare and Demography, and the Ministry of Rural Welfare should coordinate the systematisation under Article 3, paragraph 3 and Article 5, paragraph 2. of the Rules of Procedure of the IA, form a unit for the IA with at least three internal auditors and fill the internal auditor posts as soon as possible.**  **- Priority:**  **● Cities: Subotica, Kruševac, Vranje, Kikinda, Pančevo, Sremska Mitrovica, Pirot, Jagodina, Bor, Smederevo, Leskovac, Šabac, Zaječar, Vršac and Sombor should harmonise systematisation in accordance with Article 3, paragraph 3, and Article 6, paragraph 1. of the IA Rulebook, form a IA unit with at least three internal auditors, and fill the internal auditor posts as soon as possible;**  **● Cities: Požarevac, Loznica, Zrenjanin, Valjevo, Čačak and Kraljevo should fill the internal auditor positions as soon as possible;** |
| **Status** | Multiannual recommendation, partially implemented. |
| **Follow** | The number of systematised and filled positions, by PFB group, is continuously monitored in the CAR.  The analysis of the reports received showed that the number of systematised posts increased by 9% in 2022 compared to 2021 and the number of filled posts increased by 4%.  For further details on the follow-up and implementation of this recommendation, please refer to Section [2.2.2 The internal audit function](#_2.2.2_Функција_интерне_1) and Annex 3 - Overview of PFBs that Established Internal Audit. |
| **Recommendation 11** | **For the proper establishment of the IA function, the role of PFB managers is crucial. Therefore, those managers who have not adequately ensured the function of IA in their institution, in addition to filling the posts of internal auditors in line with Article 8, paragraph 4. The IA Rulebook will allow for the independence of IA so that auditors do not perform other duties that could become subject to audit. In addition, PFB managers must work to ensure adequate implementation of the recommendations of the IA, ensure full access to records and unhindered performance of audits, and allow for professional development of internal auditors. In order to ensure timely monitoring of the implementation of the IA recommendations, management must ensure that the report on the implementation of the signed activity plan on the implementation of the recommendations made and accepted is submitted by the auditees to the IA function within the prescribed deadlines, which would have a positive impact on the effectiveness of the IA function.** |
| **Status** | Multiannual recommendation, partially implemented. |
| **Follow-up** | The follow-up of the implementation of this recommendation is continuously carried out through the Annual Reports on Internal Audits, and [3.2.5 Continuous professional development of certified internal auditors](#_3.2.5_Континуирано_стручно) and detailed information is in Section [2.2.2 The interna audit function](#_2.2.2_Функција_интерне_1), [2.2.5 Status of internal audit recommendations](#_2.2.5_Статус_препорука). |
| **Recommendation 12** | **Heads of internal audit units, which should be made fully functional, should adopt a quality assurance and improvement programme and conduct an internal IA performance review in accordance with the existing internal performance review model for internal audit units recommended by the CHU. The model for internal performance reviews can be downloaded from the MoF website** [**https://www.mfin.gov.rs/o-ministarstvu/interna-revizija**](https://www.mfin.gov.rs/o-ministarstvu/interna-revizija) |
| **Status** | Multiannual recommendation, implemented on a continuous basis. |
| **Follow-up** | Follow-up is carried out continuously through the annual reporting process.  For detailed information on the implementation of the recommendation, please refer to Section [2.2.2 Internal audit function](#_2.2.2_Функција_интерне_1) and through [internal audit activity (2.2.7)](#_2.2.7_Сагледавање_квалитета). |
| **Recommendation 13** | **In order to comply with the annual IA work plan, increase efficiency in the performance of audit engagements and reduce the number of non-performed engagements, each PFB should, in addition to strengthening staff capacity, review all individual causes of non-performance of audit engagements and make efforts to address them. The PFB and its IA must ensure that the annual plan IA is realistic, appropriate, and consistent with the risk assessment. Deviations are possible due to future events or contingencies that were not and could not have been foreseen at the time the plan was prepared. All known circumstances, such as regular annual audits, the coming into force of new regulations and the like, as well as the available human resources and their expertise, should be taken into account in the planning. Nor should the increase in the number of advisory engagements performed be achieved on the basis of a reduction in the number of planned audits performed or on the basis of a reduction in the number of assurance engagements. The annual IA work plan should be reviewed regularly and corrected, if necessary, with the approval and authorisation of the head of PFB being mandatory. In addition, to increase the efficiency of IA and ensure that it achieves its purpose and objectives, PFBs should make efforts to address the identified causes of non-compliance with the annual IA work plan.** |
| **Status** | Multiannual recommendation, implemented on a continuous basis |
| **Follow-up** | Follow-up is carried out continuously through the annual reporting process.  For detailed information, please refer to Section [2.2.4 2.2.4 Overview of performed audits](#_2.2.4_Преглед_обављених)  and Section [2.2.6 Internal audit consulting services](#_2.2.6_Саветодавне_услуге). |

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1. “Official Gazette of the RS”, no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 - corrigendum, 108/13, 142/14, 68/15 - other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 – other law and 138/22. [↑](#footnote-ref-1)
2. More about the statement on internal controls in section [2.1.5 Statement on Internal Controls](#_2.1.5_Изјава_о) [↑](#footnote-ref-2)
3. Please refer to the Rulebook on the procedure for determining and keeping records on public funds beneficiaries and the terms and conditions for opening and closing subaccounts in the consolidated treasury account of the Treasury Administration (“Official Gazette of the RS”, nos. 99/18 and 40/19). [↑](#footnote-ref-3)
4. Negotiation Chapter 32 - Financial Supervision covers four main areas: PIFC, external audit, protection of the EU's financial interests and protection of the euro against counterfeiting. [↑](#footnote-ref-4)
5. In 2022, there were status and organisational changes in water management sector in the Republic of Serbia. In the next reporting cycles, water management companies will be monitored in the same way as the existing PEs at the central level. [↑](#footnote-ref-5)
6. The category of “priority” PFBs is defined as a group of ministries, MSIO, JEs and cities when presenting the situation of FMC for the purposes of this report. [↑](#footnote-ref-6)
7. Institute of Internal Auditors (IIA) International Standards for the Professional Practise of Internal Auditing [↑](#footnote-ref-7)
8. Excluding the territory of AP KiM. Since the organisations from the territory of AP KiM have been working under difficult conditions and special circumstances since 1999, their functioning is governed by special regulations and organisational setup. In view of this, the organisations from the area of AP KiM could not submit their FMC annual reports. [↑](#footnote-ref-8)
9. The public enterprise Šar Planina National Park, Štrpce, works under difficult conditions and special circumstances, so it was not able to submit the FMC report. [↑](#footnote-ref-9)
10. Regulation on the principles of the staff establishment and internal regulation in ministries, special organisations, and government services ("Official Gazette of the RS", no. 81 of 4 September 2007 - revised text, No. 69 of 18 July 2008, No. 98 of 12 October 2012, No. 87 of 4 October 2013, No. 2 of 16 January 2019, and No. 24 of 19 March 2021) [↑](#footnote-ref-10)
11. English *COSO (Committee of Sponsoring organisations of the Treadway Commission, „Internal Control – Integrated Framework, May 2013.)* [↑](#footnote-ref-11)
12. The average score for the second principle is not shown for priority beneficiaries in this Figure because it is not applicable as most in this category do not have a management/supervisory board. [↑](#footnote-ref-12)
13. For the purposes of this report, in the presentation of the status of IA in PFBs, the “most important” institutions refer to the group of direct budget beneficiaries at central level, MSIOs, LSGs and PEs. [↑](#footnote-ref-13)
14. This category includes IA in 25 ministries and the special IA established in four administrations (the Treasury Administration, the Tax Administration and the Customs Administration and the Directorate for Agrarian Payments in the Ministry of Agriculture, Forestry and Water Management). [↑](#footnote-ref-14)
15. Without administrative districts. [↑](#footnote-ref-15)
16. Excluding cities from the territory of the AP KiM. [↑](#footnote-ref-16)
17. Excluding General from the territory of the AP KiM [↑](#footnote-ref-17)
18. DBBs at central level: National Assembly, Presidency, Government, governmental offices, ministries, judiciary bodies, special organisational units and independent bodies. This category is presented without administrative districts. [↑](#footnote-ref-18)
19. Excluding cities from the territory of the AP KiM. [↑](#footnote-ref-19)
20. The current IA Rulebook provides for this as an exceptional possibility if it is not possible to set up a IA unit. [↑](#footnote-ref-20)
21. Engagements that were either not implemented or were in progress at the date of reporting. [↑](#footnote-ref-21)
22. The number of planned audits includes audits that were subsequently planned on demand. [↑](#footnote-ref-22)
23. Including ongoing audits. [↑](#footnote-ref-23)
24. Overview of PFBs that Established Internal Audit [↑](#footnote-ref-24)
25. The areas and nature of the recommendations correspond to the official IA reports submitted by the PFBs. [↑](#footnote-ref-25)
26. Unimplemented recommendations also include recommendations that were not accepted by the PFBs’ management. [↑](#footnote-ref-26)
27. [https://www.mei.gov.rs/upload/documents/eu\_dokumenta/godisnji\_izvestaji\_ek\_o\_napretku/Serbia\_Report\_2022\_SR.%5B1%5D.pdf](https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/Serbia_Report_2022_SR.%5b1%5d.pdf) [↑](#footnote-ref-27)
28. For more information, please refer to Section [2.1.6 FMC from the perspective of PFBs](#_2.1.6_ФУК_из) [↑](#footnote-ref-28)
29. Article 8 of the FMC Rulebook [↑](#footnote-ref-29)
30. This number includes normatively established IAs in 23 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 Directorate for Agrarian Payments in the Ministry of Agriculture, Forestry and Water Management) [↑](#footnote-ref-30)
31. These are indirect budget beneficiaries (IBBs) at the central level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is performed by the direct budget beneficiary, pursuant to Art. 5(3) of the IA Rulebook. [↑](#footnote-ref-31)
32. These are indirect budget beneficiaries (IBBs) at the local level that have established their own, independent internal audit functions and not IBBs in which the internal audit function is performed by the direct budget beneficiary, pursuant to Art. 5, paragraphs 3 and 4 of the IA Rulebook. [↑](#footnote-ref-32)
33. A total of 238 PFBs have a functional IA. The difference is due to the fact that the IA tasks at certain PFBs are carried out by individuals on the basis of a contract. [↑](#footnote-ref-33)
34. Only if the internal audit unit is not in place. [↑](#footnote-ref-34)
35. From the general enactment of the public fund beneficiary. [↑](#footnote-ref-35)
36. A normatively established internal audit is an internal audit established by a enactment on the job classification and organisation or by an agreement on the performance of an internal audit in accordance with Article 3, item. 2) and 3) of the Rulebook on Joint Criteria for Organizing and Standards and Methodological Instruction for Acting and Reporting by the Internal Audit in the Public Sector (“Official Gazette of the RS”, no. 99/11 and 106/13). [↑](#footnote-ref-36)
37. Including attendees that started the training before the reporting period and are still in the training process. [↑](#footnote-ref-37)
38. To be completed only by public funds beneficiaries that are direct budget beneficiaries responsible for indirect budget beneficiaries. [↑](#footnote-ref-38)
39. The filing number of the certificate awarded to a certified public sector internal auditor is to be entered only for staff engaged in internal audit-related work who have acquired this title in line with the Rulebook on the requirements and procedure for taking the exam for acquiring the title of certified internal auditor in the public sector (" Official Gazette of the RS", no 9/2014). [↑](#footnote-ref-39)
40. This refers to the year for which this report is submitted. [↑](#footnote-ref-40)
41. The total number of recommendations made in the reporting period must be equal to the sum of recommendations from all audits performed in the reporting period, presented in the Special Section: Overview of Performed Audits [↑](#footnote-ref-41)
42. To be completed by PFBs that have certified public internal auditors on their staff. [↑](#footnote-ref-42)
43. To be completed by PFBs what have an internal audit unit in place. [↑](#footnote-ref-43)
44. The text of the Consolidated Annual Report for 2020 is available on the following website: https://www.mfin.gov.rs//upload/media/6jh9Z7\_6336a07d4be6f.pdf [↑](#footnote-ref-44)
45. Table 2 can be copy-pasted, as needed, to include all audits performed (audits). [↑](#footnote-ref-45)
46. State number of recommendations per type of recommendation (area): **1- Internal rules and procedures; 2 – Planning; 3 – Income and revenues; 4 – Public procurements and contracts; 5 – Payroll; 6 – Payments and transfer of funds; 7 – Accounting and financial reporting; 8 – Information systems.** [↑](#footnote-ref-46)
47. Recommendations from the audit summary report. [↑](#footnote-ref-47)
48. New rows can be added to Table 4 according to the needed, i.e., number of consulting services performed. [↑](#footnote-ref-48)
49. Add new rows to Table 5 according to needs, i.e., the number of internal audit employees. [↑](#footnote-ref-49)
50. Internal Control Statement form submitted in case of weaknesses identified in the internal control system. [↑](#footnote-ref-50)
51. If the audits concern the reporting period. [↑](#footnote-ref-51)
52. Internal Control Statement form submitted in case of weaknesses identified in the internal control system. [↑](#footnote-ref-52)
53. If the audits concern the reporting period. [↑](#footnote-ref-53)
54. Scores from the Internal Control Self-Assessment Questionnaire that you are not satisfied with, weaknesses pointed out by audits or observed in the organisation itself, etc. [↑](#footnote-ref-54)
55. Excluding the territory of AP KiM. Since the organisations from the territory of AP KiM have been working under difficult conditions and special circumstances since 1999, their functioning is governed by special regulations and organisational setup. In view of this, the organisations from the area of AP KiM could not submit their FMC annual reports. [↑](#footnote-ref-55)