

# RULEBOOK

## ON JOINT CRITERIA AND STANDARDS FOR ESTABLISHING, FUNCTIONING AND REPORTING OF THE SYSTEM OF FINANCIAL MANAGEMENT AND CONTROL IN THE PUBLIC SECTOR

(Official Gazette of RS, nos. 99/2011 and 106/2013)

### I GENERAL PROVISIONS

#### Article 1

This Rulebook governs the joint criteria and standards for establishing, functioning and reporting of the system of financial management and control in public fund beneficiaries.

#### Article 2

The terms used in this Rulebook shall have the following meaning:

- 1) *Adequate financial management and control systems* are present in each public fund beneficiary and provide reasonable assurance that there is effective risk management and that the goals and objectives of the public fund beneficiary will be achieved efficiently and economically;
- 2) *Good financial management* shall refer to the requirement that public funds be spent and managed in accordance with the principles of economy, effectiveness and efficiency;
- 3) *Reasonable assurance* shall mean a satisfactory level of confidence regarding a certain issue considered in terms of costs, benefits and risks;
- 4) *Risk* shall mean the probability of occurrence of a certain event that could have a negative impact on achieving the goals of the public fund beneficiary. The risk shall be measured in terms of its consequences and the probability of its occurrence;
- 5) *International Internal Audit Standards* shall refer to the standards harmonised with the Guidelines for Internal Control in the Public Sector of the International Organisation of Supreme Audit Institutions (INTOSAI);
- 6) *Manager of the public fund beneficiary* shall be the person who manages the work and operation of the public fund beneficiary;
- 7) *Managerial responsibility* shall be the duty of the managers of all levels in the public fund beneficiary to perform all activities in a legal manner, while respecting the principles of

economy, effectiveness, efficiency and publicity, as well as to answer for their decisions, actions and results to the one who appointed them or delegated the responsibility to them;

8) *Risk management* shall refer to the process of identifying, assessing and controlling risk with the aim of ensuring reasonable assurance that the goals of the public fund beneficiary will be achieved;

9) *Audit trail* shall mean a survey that covers the entire documentation and presents transactions in all stages and enables keeping track of documentary evidence from aggregated to individual amounts and vice versa;

10) *Economy* shall mean that the assets used by the public fund beneficiary for conducting its activities should be available on time, in adequate quantity, with adequate quality and at the most favourable price;

11) *Effectiveness* shall mean achieving the best ratio between the assets used and the results achieved;

12) *Efficiency* shall mean the ratio between the results achieved and the goals planned.

### **Article 3**

Financial management and control shall be a system of policies, procedures and activities established, maintained and regularly updated by the manager of the public fund beneficiary, which, through risk management, provides reasonable assurance that the goals of the public fund beneficiary will be achieved in a correct, economic, efficient and effective manner, through:

- 1) operation in accordance with regulations, internal acts and agreements;
- 2) completeness, realisticness and integrity of financial and business reports;
- 3) good financial management;
- 4) protection of assets and data (information).

## **II FINANCIAL MANAGEMENT AND CONTROL SYSTEM**

### **Article 4**

Financial management and control system shall include the following elements:

- 1) control environment;
- 2) risk management;
- 3) control activities;
- 4) information and communication;

5) system monitoring and assessment.

The elements of the financial management and control system are determined in accordance with the international internal control standards.

### **Article 5**

Control environment shall include:

- 1) personal and professional integrity and ethical values of the management and all employees of the public fund beneficiary;
- 2) management and the method of governance;
- 3) setting missions and goals;
- 4) organisational structure, establishing the division of responsibilities and authority, hierarchy and clear rules, obligations and rights, and reporting levels;
- 5) human resource management policies and practice;
- 6) employee competence.

### **Article 6**

Risk management shall include identifying, assessing and controlling the potential events and situations that can have a negative impact on achieving the goals of the public fund beneficiary, with the task of providing reasonable assurance that these goals will be achieved.

For the performance of the activities referred to in paragraph 1 of this Article, the manager of the public fund beneficiary shall adopt a risk management strategy, which shall be updated every three years, as well as in the event of major changes in the control environment.

The controls whose purpose is to reduce the risk to an acceptable level must be analysed and updated at least once a year.

### **Article 7**

Control shall include written policies and procedures, and their application, which shall be established to provide reasonable assurance that the risks to achieving the goals are restricted to an acceptable level defined in the risk management procedures, and in particular:

- 1) authorisation and approval procedures;
- 2) division of duties and transfer of authority in order to make it impossible for a single person to be simultaneously responsible for authorisation, execution, recording and control activities;

- 3) dual signature system in which no commitment may be made or no payment effected without the signature of the manager of the public fund beneficiary and the manager of the financial unit or other authorised person;
- 4) rules for accessing assets and information;
- 5) prior verification of legality carried out by the authorised person appointed by the manager of the public fund beneficiary;
- 6) procedures for full, appropriate, correct and timely recording of all transactions;
- 7) reporting and review of activities – assessment of transaction effectiveness and efficiency;
- 8) procedure supervision;
- 9) human resource management procedures;
- 10) rules for documenting all transactions and operations related to the activity of the public fund beneficiary.

The controls must be adequate and the costs of their introduction must not exceed the expected benefit from their introduction.

### **Article 8**

Information and communication shall include:

- 1) identifying, collecting and distributing, in an appropriate form and time frame, reliable and true information that enables the employees to assume responsibilities;
- 2) effective communication, horizontal and vertical, at all hierarchical levels of the public fund beneficiary;
- 3) building an adequate information system that enables all employees to have clear and precise directives and instructions regarding their roles and responsibilities in connection with financial management and control;
- 4) using documentation and documentation flow system, which shall include the rules for documentation recording, preparing, relocating, using and archiving;
- 5) documenting all business processes and transactions in order to prepare appropriate audit trails for oversight (supervision);
- 6) establishing an effective, timely and reliable reporting system, including reporting levels and deadlines, types of reports to be submitted to the management and the method of reporting in the event of detecting errors, irregularities, misuse of assets and information, fraud or prohibited acts.

### **Article 9**

System monitoring and assessment shall include introducing a system for overseeing financial management and control by assessing its adequacy and functioning.

System monitoring and assessment shall be performed by current inspection, self-assessment and internal audit.

### **III ESTABLISHING, FUNCTIONING AND REPORTING OF THE FINANCIAL MANAGEMENT AND CONTROL SYSTEM**

#### **Article 10**

The manager of the public fund beneficiary shall be responsible for establishing, maintaining and improving the financial management and control system.

#### **Article 11**

The manager of the public fund beneficiary shall also be responsible for:

- 1) setting the goals of the public fund beneficiary that he/she manages, developing and implementing strategic plans, action plans and programmes to achieve the goals;
- 2) identifying, assessing and managing the risks jeopardising the achievement of the goals of the public fund beneficiary, by introducing adequate controls in accordance with the international internal control standards;
- 3) public funds planning, managing and accounting;
- 4) adhering to the principles of legality, regularity and sound financial management of public funds;
- 5) effective staff management and maintenance of the necessary level of their expertise;
- 6) keeping and protecting the assets and information against loss, theft, unauthorised use and misuse;
- 7) establishing adequate organisational structure for effective achievement of goals and risk management;
- 8) establishing conditions for legal and ethical conduct of the public fund beneficiary employees;
- 9) separating responsibilities for decision making, execution and control;
- 10) introducing internal rules for financial management and control, through internal acts;
- 11) full, appropriate, correct and timely recording of all transaction;

12) monitoring and updating of and taking measures for improving the financial management and control system, in accordance with the recommendations of internal audit and other assessments;

13) documenting all transactions and operations and providing an audit trail within the public fund beneficiary;

14) reporting on the financial management and control system.

Certain responsibilities referred to in paragraph 1 of this Article may be transferred by the manager of the public fund beneficiary to other persons within the public fund beneficiary that he/she manages, unless otherwise provided by the law or other regulation.

The transfer of responsibilities according to paragraph 2 of this Article shall not release the manager of the public fund beneficiary from his/her responsibility.

### **Article 12**

The managers of internal organisational units of the public fund beneficiary shall be responsible to the manager of the public fund beneficiary for the financial management and control activities that they establish in the organisational units that they manage.

### **Article 13**

The manager of the public fund beneficiary shall report to the Minister of Finance about the adequacy and functioning of the established financial management and control system by 31 March of the current year for the previous year by submitting a reply to the questionnaire prepared by the Central Harmonisation Unit.

## **IV TRANSITIONAL AND FINAL PROVISIONS**

### **Article 14**

As of the day of coming into force of this Rulebook, the Rulebook on Joint Criteria and Standards for Establishing and Functioning of the System of Financial Management and Control in the Public Sector (Official Gazette of RS, No. 82/07) shall cease to apply.

### **Article 15**

This Rulebook shall come into force on the eighth day from the day of its publication in the Official Gazette of the Republic of Serbia.