

RULEBOOK

ON JOINT CRITERIA FOR ORGANISATION AND STANDARDS AND METHODOLOGICAL INSTRUCTIONS FOR THE CONDUCT AND REPORTING OF INTERNAL AUDIT IN THE PUBLIC SECTOR

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

I GENERAL PROVISIONS

Article 1

This Rulebook prescribes the joint criteria for organisation and standards and methodological instructions for the conduct and reporting of internal audit in the public sector and regulates in more detail internal audit activities in public fund beneficiaries.

Article 2

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

- 1) *Internal audit* shall mean an activity that provides independent objective assurance and consulting activities, with the aim of contributing to the improvement of operation of public fund beneficiaries; it assists public fund beneficiaries in achieving their goals by assessing and evaluating, in a systematic and disciplined manner, the risk management, controls and governance of public fund beneficiaries;
- 2) *Assurance* shall mean an objective review of evidence the purpose of which is an independent assessment of adequacy and functioning of the existing processes of risk management, control and governance of public fund beneficiaries;
- 3) *Consulting activities* shall mean providing advice, guidelines, training, assistance or other services with the aim of increasing the value and improving public fund beneficiaries' governance process, risk management and control, with internal auditors not assuming managerial responsibility;
- 4) *System audit* shall mean analysing and assessing the quality, adequacy, reliability and efficiency of the functioning of internal control mechanisms and procedures in public fund beneficiaries;
- 5) *Financial audit* shall mean analysing and assessing the controls that ensure the accuracy and completeness of accounting data and financial statements;

- 6) *Performance audit* shall mean analysing and assessing the utilisation of resources in an economical, efficient and effective manner in order to achieve the goals of public fund beneficiaries, as well as assessing whether these goals are justified and appropriate;
- 7) *IT audit* shall mean analysing and assessing the processes, procedures and use of electronic information systems relating to security, confidentiality, integrity and availability of information and information systems as a means for achieving the goals of public fund beneficiaries;
- 8) *Compliance audit* shall mean analysing and assessing the compliance of public fund beneficiaries' operations with the laws, regulations, internal acts and contractual provisions;
- 9) *Expertise* shall mean having knowledge, skills and experience necessary for performing the duties of internal auditor;
- 10) *Integrity* shall mean commitment to the ethics, respect of the law and rules of profession, including honesty, objectivity, independence, discipline and maintenance and application of high professional standards;
- 11) *Risk* shall mean the probability of occurrence of a certain event that could have a negative impact on achieving the goals of public fund beneficiaries. The risk shall be measured in terms of its consequences and the probability of its occurrence;
- 12) *Risk management* shall refer to the process of identifying, assessing and controlling risk with the aim of ensuring, to a reasonable extent, confidence in terms of achieving the goals of public fund beneficiaries;
- 13) *Control* shall refer to the activities undertaken by the management in order to avoid or mitigate the risks that have a negative impact on achieving the goals of public fund beneficiaries;
- 14) *Independence* shall refer to the absence of all circumstances that may compromise the objectivity of internal audit. The internal audit should be set up in a manner that prevents interference with the work performed by internal auditors when determining the scope of internal audit, planning, carrying out assignments and reporting;
- 15) *Objectivity* shall refer to an attitude free of bias and an attitude not based on another person's judgment (estimate);
- 16) *Auditor engagement (assignment)* shall refer to a specific audit task, assignment or review, which shall also include assurance or provision of consulting service. The engagement may include different assignments, procedures and activities;
- 17) *Confidentiality* shall refer to respecting the value and ownership of data that internal auditors obtain during the performance of their activities, which should not be disclosed without an appropriate authorisation, except in cases where there is a legal or professional obligation of disclosing the data;

18) *Managers* shall mean the managers of public fund beneficiaries, including the managers within their competence, as well as the unit managers performing follow-up control of activities or functions within public fund beneficiaries;

19) *Auditee* shall mean any public fund beneficiary, internal organisational unit, programme, activity or function that is the subject of internal audit;

20) *Indications of fraud* shall mean materially significant actions, which indicate the existence of the elements of misdemeanour or criminal offence, or irregularities based on which it may be concluded that there is an intentional misrepresentation of material or financial facts;

21) *Code of Ethics* shall refer to the Code of Ethics of the Institute of Internal Auditors. This document includes the principles relating to the internal audit profession and practice and the rules of conduct that describe the conduct expected of internal auditors. The Code of Ethics shall apply to each individual internal auditor, as well as to internal audit units;

22) *The Internal Audit Charter* shall mean an internal act signed by the chief internal audit executive and the manager of the public fund beneficiary, which shall state the purpose, authorities and responsibilities of internal audit. The Charter shall:

- (1) specify the status of internal audit within the public fund beneficiary;
- (2) give internal auditors the authorisation to access the records, employees and assets necessary for carrying out audit assignments;
- (3) define the scope – the area of operation of internal audit;

23) *International Internal Audit Standards* shall refer to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

II SETTING UP AND ORGANISATION OF INTERNAL AUDIT

Article 3

Internal audit shall be set up by public fund beneficiaries in one of the following manners:

- 1) by organising a separate functionally independent organisational unit for internal audit within the public fund beneficiary, which shall directly report to the manager of the public fund beneficiary;
- 2) by organising a joint unit for internal audit at the proposal of two or more public fund beneficiaries, with prior approval of the Central Harmonisation Unit of the Ministry of Finance;
- 3) by having the internal audit unit of another public fund beneficiary perform the internal audit, based on an agreement, with prior approval of the Central Harmonisation Unit of the Ministry of Finance.

Notwithstanding the above, where there are no conditions for organising the internal audit unit referred to in paragraph 1 of this Article, the activities of the internal audit unit may be carried out by an internal auditor employed with the public fund beneficiary.

The internal audit unit may not have less than three internal auditors, one of which is the chief audit executive. The number of internal auditors shall be determined by the public fund beneficiary by an internal general act, based on the assessment of risks, scope and complexity of business processes, the amount of available funds and the number of its employees.

Article 4

A separate functionally independent organisational unit for internal audit shall be set up within the public fund beneficiaries having more than 250 employees.

Article 5

Direct budget beneficiaries of the Republic of Serbia that have indirect budget beneficiaries within their competence shall set up a separate functionally independent organisational unit for internal audit.

Notwithstanding the criteria referred to in paragraph 1 of this Article, a separate functionally independent organisational unit for internal audit shall be set up by ministries as well.

In indirect budget beneficiaries of the Republic of Serbia that did not set up internal audit in one of the manners prescribed by Article 3 of this Rulebook, internal audit activities shall be performed by the internal audit unit of the competent direct budget beneficiary, in accordance with its own operating plan.

In indirect budget beneficiaries of the Republic of Serbia that set up internal audit in one of the manners prescribed by Article 3 of this Rulebook, internal audit may also be performed by the internal audit unit of the competent direct budget beneficiary, in accordance with its own operating plan.

Article 6

A separate functionally independent organisational unit for internal audit shall be set up in the autonomous provinces, the City of Belgrade and cities and shall directly report to the relevant head of the autonomous province and the head of the local government unit.

In budget beneficiaries of the local government units referred to in paragraph 1 of this Article that did not set up internal audit in one of the manners prescribed by Article 3 of this Rulebook, internal audit activities shall be performed by the internal audit unit referred to in paragraph 1 of this Article, which shall directly report to the head of the local government unit, in accordance with its own operating plan.

Internal audit shall be set up in municipalities in one of the manners prescribed by Article 3 of this Rulebook and shall directly report to the mayor of the municipality.

In municipal budget beneficiaries that did not set up internal audit in one of the manners prescribed by Article 3 of this Rulebook, internal audit activities shall be performed by the internal audit referred to in paragraph 3 of this Article, which shall directly report to the mayor of the municipality, in accordance with its own operating plan.

Article 7

The manager of the public fund beneficiary shall be responsible for setting up internal audit and providing the conditions for its adequate functioning in accordance with the law governing the budget system and with this Rulebook.

The manager of the public fund beneficiary may form an audit committee as an advisory body for the matters of internal control and internal audit.

Article 8

The internal audit unit and internal auditor shall be functionally and organisationally independent and shall directly report to the manager of the public fund beneficiary.

The functional independence shall be established by independent planning, implementing and reporting on the internal audits performed.

The organisational independence shall be established in relation to other organisational units of the public fund beneficiary.

The chief audit executive and internal auditor may not be assigned the performance of any other function or activity except internal audit activity.

The chief audit executive and internal auditor shall be independent in their work and may not be dismissed or reassigned to another position for disclosing facts and giving recommendations in connection with internal audit.

Article 9

The internal audit unit and internal auditor shall perform internal audit of all organisational units of the public fund beneficiary and all programmes, activities and processes within the competence of the public fund beneficiary, including the beneficiaries of the EU funds.

The internal audit unit of the public fund beneficiary responsible for managing joint intersectoral programmes and projects shall coordinate the work of the internal audit units of the public fund beneficiaries participating in these programmes and projects.

III INTERNAL AUDIT ACTIVITIES, STANDARDS AND METHODOLOGY

Article 10

Internal audit shall assist public fund beneficiaries in achieving their goals by applying a systematic and disciplined approach to assessing the financial management and control system in terms of:

- 1) risk identification, risk assessment and risk management by managers of all levels in public fund beneficiaries;
- 2) compliance with laws, internal acts and agreements;
- 3) reliability and completeness of financial and other information;
- 4) efficiency, effectiveness and economy of operations;
- 5) protection of assets and data (information);
- 6) carrying out assignments and achieving goals.

Article 11

Internal audit shall be performed in accordance with the law governing the budget system, with this Rulebook and with the International Internal Audit Standards.

Article 12

Internal auditors shall comply in their work with the Internal Audit Charter, the Code of Ethics, the manual prescribing the work methodology and guidelines and instructions issued by the Minister of Finance in accordance with the law governing the budget system.

The public fund beneficiaries that are complex entities in organisational and financial sense may, due to the specific character of their operations, issue additional methodological instructions for the performance of internal audit, as acts that elaborate in more detail the methods used in the audit process.

Article 13

The audit process for the provision of assurance services in individual engagements shall contain the following stages: planning audit assignment, performing checks, reporting and monitoring the follow-up activities regarding the given recommendations.

Assurance services shall be provided based on the performance of system audit, compliance audit, financial audit, IT audit and performance audit or a combination of these audit types.

The audit processes of providing consulting services shall be performed in the areas of risk management, control and management process, and the content of audit programmes and the manner of reporting shall be determined in advance with the manager of the public fund beneficiary.

IV RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF THE CHIEF AUDIT EXECUTIVE AND INTERNAL AUDITORS

Article 14

The chief audit executive and internal auditors shall have the right of unlimited access to the managers, employees and assets of the public fund beneficiary that are related to the performance of audit.

The chief audit executive and internal auditors shall have the right of access to all information, including confidential information, while adhering to their authorised level of confidentiality, as well as access to all available documents and records in the public fund beneficiary that are necessary for audit performance.

The chief audit executive and internal auditors shall have the right to request from the responsible persons all necessary data, reviews, opinions, documents or other audit-related information.

Article 15

In addition to the rights referred to in Article 14 of this Rulebook, the chief audit executive shall have the following rights as well:

- 1) to report directly to the manager of the public fund beneficiary about all significant matters regarding audit performance;
- 2) to propose to the manager of the public fund beneficiary to engage experts whose special knowledge and skills related to audit performance are needed in the audit process.

Article 16

The chief audit executive and internal auditor shall keep the confidentiality of the data and information made available to them in the audit process, unless otherwise provided by law.

The chief audit executive and internal auditor shall apply in their work the principles of objectivity, expertise, confidentiality and integrity.

The objectivity shall be compromised if the chief audit executive or internal auditor provide assurance services for the activities for which they were responsible during the previous year.

Article 17

The chief audit executive shall be responsible for the activities of the internal audit unit, including:

- 1) preparing and submitting for approval to the manager of the public fund beneficiary the Draft Internal Audit Charter, strategic and annual internal audit plan;

- 2) organising, coordinating and allocating work assignments to internal auditors in accordance with their knowledge and skills;
- 3) approving plans for the performance of audit engagements;
- 4) supervising the implementation of the annual internal audit plan and application of the methodology of internal audit in the public sector by the unit he/she manages;
- 5) preparing and submitting for approval to the manager of the public fund beneficiary the plan for professional training and professional development of internal auditors;
- 6) developing a special methodology where needed for the activities of the internal audit unit;
- 7) assessing the financial management systems and control systems.

Article 18

The chief audit executive shall submit to the manager of the public fund beneficiary:

- 1) internal audit annual work report;
- 2) report on the results of each audit engagement and all major findings, recommendations given and actions taken for improving the operation of the auditee;
- 3) interim reports on the progress in implementing the internal audit annual plan;
- 4) reports on the adequacy of resources for the performance of internal audit;
- 5) reports on all cases where the activities of the chief audit executive and internal auditors faced constraints.

The chief audit executive shall cooperate and coordinate the work with external audit.

Article 19

The assessment of the internal audit unit work quality shall be carried out by internal and external assessment.

The internal assessment shall be conducted by the chief audit executive through continuous reviews of the performance of audit activities and periodic reviews by self-assessment.

The external assessment shall be conducted by an analysis of the submitted internal audit annual work reports and by periodic review at least once in five years at the public fund beneficiary, which shall be conducted by the Central Harmonisation Unit of the Ministry of Finance according to the assessment programme.

The chief audit executive shall define the programme for assessing the work quality of the internal audit unit based on the instructions for quality assessment prepared by the Central Harmonisation Unit of the Ministry of Finance.

The elements of the quality assessment programme shall include: organisational and functional independence, skills and training of internal auditors, planning and selecting audit areas, risk analysis, objectivity assessment, reporting, relationship with colleagues and ethics.

The quality assessment programme shall provide the basis for assurance as to whether the audit is conducted by trained internal auditors in accordance with the generally accepted international standards and whether they prepare reports that are objective and fair.

Article 20

The chief audit executive and internal auditors should have relevant knowledge in order to be able to recognise indications and assess the risks of fraud and the presence of any fraud-enabling conditions.

Once fraud indicators are identified, the internal auditors shall stop the audit process and immediately inform the chief audit executive, who shall immediately inform the manager of the public fund beneficiary.

V REQUIREMENTS FOR PERFORMING THE ACTIVITIES OF THE CHIEF AUDIT EXECUTIVE AND INTERNAL AUDITORS

Article 21

In addition to the requirements stipulated by the law and the Job Classification document, an internal auditor must have minimum three years of experience in audit, internal control, financial control or accounting and financial activities and must have passed an exam for certified internal auditor in the public sector.

The application for the training for acquiring the title of certified internal auditor in the public sector shall be submitted to the Central Harmonisation Unit of the Ministry of Finance within six months from the day of assignment to the post of internal auditor.

The organisation and the training referred to in paragraph 2 of this Article shall solely be conducted by the trainers and mentors employed with the Central Harmonisation Unit of the Ministry of Finance.

In accordance with the needs for conducting practical training, the mentors may be appointed by the manager of the Central Harmonisation Unit of the Ministry of Finance from among the certified internal auditors in the public sector who completed the training for mentors under the programme of the Central Harmonisation Unit of the Ministry of Finance.

The mentors referred to in paragraph 4 of this Article shall conduct practical training under the supervision of the Central Harmonisation Unit of the Ministry of Finance.

The exam for certified internal auditor in the public sector shall be taken before the commission formed by the Minister of Finance.

The programme for the exam for certified internal auditor in the public sector shall be adopted by the Minister of Finance.

For the purpose of maintaining and improving the level of their professional knowledge, certified internal auditors in the public sector shall attend advanced training organised and conducted by the Central Harmonisation Unit of the Ministry of Finance, in accordance with its programme.

Article 22

The chief audit officer must meet the requirements referred to in Article 21 of this Rulebook and have minimum seven years of experience in audit, internal control, financial control or accounting and financial activities.

The chief audit officer may not be a person who was employed with the public fund beneficiary in a position with managerial powers in the area of financial management in the past 12 months.

VI INTERNAL AUDIT PLANNING, CONDUCTING AND REPORTING

Article 23

Internal audit shall be performed in accordance with:

- 1) the strategic plan for a three-year period;
- 2) annual plan;
- 3) individual engagement plan.

The strategic plan shall be adopted by the end of current year for the next three-year period, and the annual internal audit plan shall be adopted by the end of current year for the following year.

Article 24

The strategic plan, determining the strategic goals of internal audit, shall be based on long-term goals of the public fund beneficiary and internal audit risk assessment.

The chief audit executive shall prepare the strategic plan based on consultations with the manager of the public fund beneficiary and other heads of the public fund beneficiary.

The strategic plan shall be approved by the manager of the public fund beneficiary.

Article 25

The annual plan shall be prepared each year based on the strategic plan.

The chief audit executive shall prepare the annual plan, which shall be approved by the manager of the public fund beneficiary.

Article 26

Any amendments to the strategic plan and annual plans shall be made based on risk assessment, at the proposal of the chief audit executive, and shall be approved by the manager of the public fund beneficiary.

Article 27

Each individual engagement shall be conducted based on a prepared plan that describes in detail the subject, goals, duration, resource allocation, audit approach, techniques and scope of checks.

Individual engagement plan and the related programmes that describe in detail audit processes shall be prepared by the internal auditor and approved by the chief audit executive.

The audit shall begin with an introductory meeting with the management of the auditee, and shall be performed by determining, analysing, assessing and documenting the data sufficient for giving an expert opinion about the set audit goals.

An audit report shall be prepared for each engagement conducted, which shall contain the audit summary, goals and scope, findings, conclusions and recommendations, a detailed report, a plan for implementing the given recommendations (hereinafter: activity plan) as well as any comments of the manager of the auditee.

Article 28

After the completion of all planned checks, the audit team shall prepare a draft report and submit it to the auditee.

The draft report may include recommendations proposing an improvement to the existing manner of work and operation of the auditee and/or elimination of irregularities, mistakes or deficiencies observed in the audit process.

At the final meeting, the audit team shall inform the manager of the auditee of the audit results and have a discussion with him/her in order to harmonise their views.

Article 29

The responsible person of the auditee may give a reply to the draft audit report containing objections with evidence, suggestions and other comments regarding the draft report.

The reply to the draft report, with any objections and suggestions, shall be submitted within a time limit that may not be longer than eight days from the day of holding the final meeting.

After the expiry of the time limit referred to in paragraph 2 of this Article, the auditee shall submit its activity plan.

Article 30

Within 15 days after the expiry of the time limit referred to in Article 29 paragraph 2 of this Rulebook, the audit team shall prepare an audit report, which it shall submit to the manager of the auditee and the manager of the public fund beneficiary.

In the report, the audit team may change its findings, conclusions or recommendations if it assesses that the facts indicated in the reply of the auditee are justified or if it assesses by itself that it is necessary for other reasons.

The manager of the auditee shall decide how to act upon the recommendations from the audit report and shall take actions towards the implementation of the recommendations.

Article 31

The manager of the auditee shall submit a report on the implementation of the activity plan to the audit team and the manager of the public fund beneficiary.

The activity plan implementation report shall be submitted within the time limit set in the audit report.

The chief audit executive may decide to perform a follow-up audit with the aim of identifying the level of implementation of the audit recommendations.

Article 32

The chief audit executive shall prepare the internal audit annual work report using the questionnaire prepared and published on the Ministry of Finance website by the Central Harmonisation Unit of the Ministry of Finance.

The internal audit annual work report shall include in particular:

- 1) the performed audits and any constraints and other reasons for failure to fulfil the plan;
- 2) the main conclusions regarding the functioning of the financial management and control system within the public fund beneficiary, as well as the recommendations given for the purpose of improving the operation of the public fund beneficiary.

The chief audit executive shall submit the annual report referred to in paragraph 2 of this Article to the manager of the public fund beneficiary until 15 March of the current year for the previous year.

The manager of the public fund beneficiary shall submit the annual report referred to in paragraph 3 of this Article to the Central Harmonisation Unit of the Ministry of Finance by 31 March of the current year for the previous year.

VII TRANSITIONAL AND FINAL PROVISIONS

Article 33

The persons who have not passed the exam for certified internal auditor in the public sector, while meeting the other requirements referred to in Articles. 21 and 22 of this Rulebook may perform the activities of certified internal auditor in the public sector or the chief audit officer for not longer than one year from the day of completing the training organised by the Central Harmonisation Unit of the Ministry of Finance.

Article 34

As of the day of coming into force of this Rulebook, the Rulebook on Joint Criteria for Organisation and Standards and Methodological Instructions for the Conduct of Internal Audit in the Public Sector (Official Gazette of RS, No. 82/07) shall cease to apply.

Article 35

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.