



Republic of Serbia
MINISTRY OF FINANCE
Department for Internal Control and Internal Audit
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Quality Review of Internal Audit Work

The quality review of internal audit work was conducted in eight ministries and three mandatory social insurance organizations, for the period covering 1 January 2016 - 30 September 2017, in accordance with Article 83 paragraph 2 item 1) of the Budget System Law (“Official Gazette of the RS” no: 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - corrig., 108/2013, 142/2014, 68/2015 - other law, 103/2015 and 99/2016), in relation to Articles 11 and 12 of the Rulebook on common 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).

Quality review was conducted in:

- Ministry of Interior;
- Ministry of Defence;
- Ministry of Foreign Affairs;
- Ministry of Environmental Protection;
- Ministry of Trade, Tourism and Telecommunications;
- Ministry of Public Administration and Local Self-Government;
- Ministry for European Integration;
- Ministry of Youth and Sport;
- Republic Health Insurance Fund;
- Republic Pension and Disability Fund;
- National Employment Service;

The review included assessing the fulfilment of the prescribed requirements, in terms of establishing the internal audit unit, audit scope, competencies and skills of internal auditors,

functional and organizational independence of internal audit, the internal audit Charter and the Code of Ethics, familiarity with the internal audit standards, strategic and annual internal audit plans, the implementation of internal audit work methodology, internal audit risk management, internal quality control, needs for future training courses and memberships in professional associations.

This report is prepared based on individual reviews performed in the above ministries and mandatory social insurance organizations, by the certified internal auditors in the public sector, staff of the Department for Internal Control and Internal Audit of the Ministry of Finance.

Internal audit units

The requirement of establishing the internal audit unit is set forth in the Article 5 paragraph 2 of the Rulebook on common criteria for organizing and standards and methodological instruction for acting and reporting by the internal audit in the public sector (hereinafter referred to as: the IA Rulebook), while in respect of mandatory social insurance organizations, such requirement is defined in Article 4 of the rulebook above. The internal audit unit may not have less than three internal auditors, one of whom is a head of such internal audit unit. The number of internal auditors in ministries and mandatory social insurance organizations is defined by an internal general document - the rulebook on internal organization and the systematization of jobs, on the basis of risk assessment, workload and complexity of business processes, the funds available and the number of staff.

The ministries and mandatory social insurance organizations covered by the quality review of internal audit work formally established the internal audit units, based on the rulebooks on internal organization and the systematization of jobs, in line with the IA Rulebook. Six ministries have systematized the internal audit units with three internal auditor positions, while two ministries have systematized the internal audit units with more than three internal auditor positions. Mandatory social insurance organizations have systematized the units with at least twelve internal auditor positions.

Ministry of Foreign Affairs, Ministry of Youth and Sport and Ministry of Environmental Protection have established the internal audit units based on the rulebooks on internal organization and the systematization of jobs, however, none of the internal auditor positions have been filled. As a reason for not filling the positions, the ministries stated that some employees had retired in the meantime or had been relocated to positions outside internal audit, while the newly-formed ministry stated the lack of adequate staff. At the moment, the procedures for the recruitment of internal auditor are nearly finalized. Although the minimum number of three internal auditor positions has been systematized in three ministries, only one position was filled, while two ministries have systematized and filled more than three internal auditor positions.

In mandatory social insurance organizations, more than eight internal auditor positions each have been filled in internal audit units.

Although the internal audit units are formally in place in six ministries, such internal audit units have failed to hire even the minimal required number of internal auditors, which casts a doubt on full adherence to the internal audit standards.

It is necessary that ministries, in line with their respective staff capacities, provide at least three employees for internal audit tasks, in order to ensure that the management can make full use of this function, as a tool for organization management.

Audit scope

All the established internal audit units have within their scope of work all internal organizational units, the authorities within the ministries and indirect budget beneficiaries in the competence of ministries. Mandatory social insurance organizations are established as unique legal entities and within its scope of work, the internal audit covers all internal organizational units.

Competencies and skills of internal auditors

Five ministries employ 15 internal auditors, 14 of whom have obtained a title of certified internal auditor in the public sector, while one auditor is currently attending the practical training for obtaining the title of certified internal auditor in the public sector. Three mandatory social insurance organizations employ 30 internal auditors, 27 of whom have obtained a title of certified internal auditor in the public sector, while two auditors are currently completing the practical training, and one auditor is attending the theoretical training for obtaining the title of certified internal auditor in the public sector. All the internal auditors meet the requirements specified in Article 3 of the Rulebook on conditions and the procedure for taking an exam and obtaining a title of certified internal auditor in the public sector, in terms of formal education and the professional experience required for the systematized positions in rulebooks on internal organization and systematization of jobs. Most internal auditors have attended the training courses in the area of state administration affairs and specialized training courses relating to the activities of their respective organizations. Most of them also attended the training courses relating to internal audit in IPA authorities and the structure of IPA, organized by the HR Management Service of the Government, or by the Department for Internal Control and Internal Audit in cooperation with the Department for Management of EU Funds of the Ministry of Finance.

Functional and organizational independence of internal audit

Internal audit units in ministries and mandatory social insurance organizations are established as functionally and organizationally independent units, directly accountable to the minister and/or the director, as defined in the rulebooks on internal organization and systematization of jobs. Internal audit units directly report to the minister and/or director, and are accountable for their work to the minister and/or director of the organization. Plans, operations and reports on conducted internal audits and the work of internal audit are separate and independent from other parts of organization. The resources for the work of internal audit, with the exception of one ministry, are not planned or specifically reflected in the financial plans of ministries, but rather, included in overall expenditures of organizations. The resources for the work of internal audit in mandatory social insurance organizations are planned as a part of the process of analytical preparation of financial plans.

It is required that the needs of internal audit are clearly stated, due to its being a unique function within the organization, so that it could be fully recognized in the process of preparation and realization of program budget, that is, it is necessary that the resources for the work of internal audit are stated and their execution monitored.

Charter and the Code of Ethics of internal audit

All internal audit units have the internal audit charter signed by the minister and/or director of the organization and the head of internal audit/internal auditor. The charters are harmonized with the model of the charter provided in the Ministry of Finance Internal Audit Manual, and in most cases this generic form was accepted. The charters define the rights and obligations of internal auditors, however, some of them failed to delineate the scope of internal audit, with respect to bodies within the ministries. The charters have been published in official gazettes, on intranet and web sites of ministries and mandatory social insurance organizations, except in case of one ministry. During the initial meetings with the audited entities, the internal auditors refer to, and as necessary submit, the charter to the audited entity.

All internal audit units have the Code of Ethics, signed by internal auditors. The Code of Ethics documents are harmonized with the model of the Code provided in the Ministry of Finance Internal Audit Manual, and in most cases this generic form was accepted. The Code of Ethics documents have been published in official gazettes, on intranet and web sites of organizations, except in two cases.

Familiarity with the Internal Audit Standards

All internal auditors are familiar with the International Standards of Professional Practice of Internal Audit of the IIA, through the process of training for obtaining the title of certified internal auditor in the public sector and through the Ministry of Finance Internal Audit Manual. The official translation of standards is also available, done by The Association of Internal Auditors of Serbia (<http://uirs.rs/wp-content/uploads/2017/12/StandardiDecembar-2017-.pdf>). In their work, internal auditors make a reference to some IIA standards only during oral communication.

Strategic and Annual internal audit plans

In ministries and mandatory social insurance organizations, internal auditors have a three-year strategic plan, approved by the minister and/or director. The strategic plans were prepared in accordance with the recommendations provided in the Ministry of Finance Internal Audit Manual. If required, and in certain cases, the strategic plan was amended, previously approved by the minister and/or director. In preparing the strategic plan, internal auditors consult with higher management (state secretaries, assistant ministers and secretaries of the ministry, or deputy directors and heads of departments in organizations), most commonly during the meetings and sometimes without an audit trail on conclusions reached.

The internal audit strategic plan was not published on intranet and web sites of organizations.

Annual internal audit plans are harmonized with the strategic plans and approved by the ministry and/or director. In preparing the annual plan, internal auditors consult with higher management, most commonly during the meetings and sometimes without an audit trail on conclusions reached. The amendments to the annual plans are approved by the minister and/or director. The internal audit annual plan was not published on intranet and web sites of organizations.

The internal audit plans also include the audits of the system of decentralized/indirect management of pre-accession IPA funds, within the IPA Operational structure.

The resources for the execution of plans are in line with the actual possibilities, however, limitations are visible in internal audit units with only one auditor. The plans failed to fully reflect the consultative audit assignments, a large portion of internal audit work. A number of internal audit units planned to conduct the follow-up audits, yet to a limited extent. The most common reason why these audits were not conducted is the insufficient number of auditors in internal audit units, that is, insufficient number of available man-days compared to the scope of the audit.

In the process of preparation of plans, it is necessary to document each individual step and ensure that adopted plans are available to all the managers and staff in the organization. By doing so, the publicity of internal audit work in the organization increases, all of which contributes to raising awareness of the need for implementing the internal control system by all the managers and employees.

Implementation of internal audit work methodology

In their work, internal auditors follow the work methodology provided for in the Ministry of Finance Internal Audit Manual. Each individual audit is performed based on the prepared plan, specifying in detail the subject matter, objectives, duration, allocation of resources, audit approach, techniques and amount of testing. After each performed audit, an audit report is prepared, containing the summary, objectives and scope of audit, findings, conclusions and recommendations, a detailed report and comments of the manager of the audited entity. For each performed audit, internal auditors develop working papers kept as audit files, most often in paper form, and some internal auditors develop them in electronic format. A number of internal audit units is lacking some of the audit working papers for documenting each stage of their work in the course of system audit.

In the organizations which have established the system of procedures within the financial management and control and/or the quality control system, internal audit units have established their own procedures which adhere to the methodology provided for in the Ministry of Finance Internal Audit Manual.

Internal audit risk management

In ministries and mandatory social insurance organizations with the risk management process in place, internal audit risks have been included in risk registers. In ministries and mandatory social insurance organizations with this process being under-way, internal audit units have identified the risks independently. Management of audit risks is typically documented in the internal audit work procedures.

Internal quality control

Internal quality control is carried out by ongoing supervision by the head of internal audit and self-evaluation performed on a regular basis. During the course of each individual audit, the head of the audit monitors the audit process, which is documented in a working paper - Audit review. In internal audit units with three and more auditors, this procedure is actually performed, whereas in internal audit units with insufficient number of auditors, this procedure is often left out or performed only as a formality (the head of internal audit unit is at the same time the auditor who actually conducted the audit). The self-evaluation on a regular basis (peer review) is performed only occasionally, without documenting the procedure in internal audit units with three and more auditors.

Training needs

Often internal auditors, within the annual plans, include their training needs, however, these are formulated in general terms, without indicating the specific areas. In direct communication, they revealed the need for additional training relating to audit of management of pre-accession funds and more practical training on performance audits and audit of electronic information systems, including the direct exchange of experience with colleagues from abroad. They also indicated that they are unable to attend training courses due to the lack of funds allocated for this purpose in the budgets of their organizations.

Internal auditors revealed the need for a systematic approach in terms of organization of training by the Central Harmonization Unit (Department for Internal Control and Internal Audit), and suggested further strengthening of the existing good informal cooperation with other colleagues and staff of the Central Harmonization Unit.

Membership in professional associations

Two internal auditors are members of professional associations. The most commonly stated reason for so few members in professional associations is insufficient funds for this purpose. Information on latest professional developments is monitored on the internet and through informal discussion with colleagues.