

Ministry of Finance

STRATEGY OF PUBLIC INTERNAL FINANCIAL CONTROL DEVELOPMENT IN THE REPUBLIC OF SERBIA FOR THE PERIOD OF 2017-2020

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REPUBLIC OF SERBIA
MINISTRY OF FINANCE



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By virtue of Article 45 paragraph 1 of the Law on Government (Official Gazette of the RS, Nos. 55/05, 71/05-correction, 101/07, 65/08, 16/11, 68/12 - the Constitutional Court (the CC), 72/12, 7/14 - the CC, and 44/14),

the Government is adopting the

STRATEGY
of Public Internal Financial Control Development in
the Republic of Serbia
for the Period of
2017-2020

As a part of the overall public administration reform, the Government committed itself to implement a series of reform measures focused on the enhancement of accountability of executives and employees in the public sector, by the management of public funds in compliance with the principles of internal financial control, for the purpose of attaining of the public sector strategic goals.

The Strategy of Public Internal Financial Control Development in the Republic of Serbia for the Period of 2017-2020 has the goal to implement the financial management and control and internal audit in the overall management system in the public sector, for the purpose of providing value for money to the citizens of the Republic of Serbia in an effective, efficient and economic manner, by transposing the national policy goals into the goals of the public sector institutions, which will enable an efficient assessment of risks with respect to the defined goals and establishing of adequate controls.

1 BRIEF OVERVIEW

The public internal financial control constitutes a comprehensive and innovative approach to the management in the public sector, which implies a combination of instruments for efficient and effective management of public resources, shaping of the management culture and transformation of a society.

Accountability is the precondition for efficient and effective management of public resources. Enhancement of accountability of executives and employees in the public sector is the main goal of the Strategy of Public Internal Financial Control Development in the Republic of Serbia for the Period of 2017-2020 (hereinafter: the PIFC Strategy), which constitutes the superstructure of the Strategy of Public Internal Financial Control Development in the Republic of Serbia (*Official Gazette of the RS*, Nos. 61/09 and 23/13), with the plan of activities for the period of 2009-2014 (hereinafter: the previous Strategy).

Although major progress has been made in the harmonization of the existing internal control mechanisms in the public sector with the concept of the Public Internal Financial Control, there are still challenges with respect to the full and systematic implementation of both the financial management and control and the internal audit by the public funds beneficiaries. The established level of financial management and control in the public funds beneficiaries is of an uneven quality, and constant increase in the number of certified internal auditors in the public sector and the number of the established internal audit units have insufficiently contributed to the diminishment of weaknesses of internal control and enhancement of the managerial accountability to an optimal level. In this connection, the Central Harmonization Unit (hereinafter: the CHU) must provide practical support to the executives and key employees in the public sector who are working on the improvement of the internal control system in their respective organizations and the changing of the method of management, switching from the compliance approach to the approach based on performance and results.

The goal of the PIFC Strategy is to incorporate the standard financial management and control practice into regular management processes and the internal audit function as the tool to the executives for proper management. In this way the plans are supported that are defined within the public administration reform for improvement of control of the environment and provision of assistance to the public funds beneficiaries in risk assessment, which enables the management in the public sector to be based on effective control mechanisms which mitigate risk and improve economy, efficiency, effectiveness and transparency in the spending of public funds, irrespective of the sources of financing.

By eliminating the deficiencies established through the process of monitoring of the implementation of the previous Strategy, the PIFC Strategy will contribute to the fulfilment of concrete requirements that accompany the accession of the Republic of Serbia to the European Union given within the Negotiation Chapter 32 – Financial control. At the same time, the goal of the PIFC Strategy is to ensure economical, efficient and effective spending of public funds, as well as provision of better quality public administration services to the end beneficiaries.

2 INTRODUCTION

The Public Internal Financial Control (hereinafter: the PIFC) is a comprehensive system of measures for the management and control of public revenues, expenditure, assets and liabilities, which the Government is establishing through the public sector organizations the goal being that the management and control of public resources, including foreign funds, are in compliance with the regulations, the budget and the principles of good financial management, or efficiency, effectiveness, economy and transparency. As such, it is an essential component of the Public Finance Management because it is a combination of instruments for efficient and effective management of public resources. The PIFC is also an instrument that shapes the management culture in the public sector and transforms the society. Implementation and enhancement of accountability by raising awareness, clear definition of the roles and responsibilities of all the participants involved in the implementation of business procedures contribute to the attainment of the public sector goals.

The PIFC is the precondition for the government administration reform as well as an instrument of coordination, verification, and harmonization of legal institutes and the means of their application, it stimulates the improvement of the functionality and effectiveness of the rational, efficient and modern government administration focused on beneficiaries.

Accountability is the precondition for efficient and effective management of public resources. The main goal of the PIFC Strategy is to enable enhancement of accountability, not only of executives but of all the employees who have certain roles in the management of public resources.

Specific objectives of the PIFC Strategy build upon the achievements of the previous Strategy. It is incorporated in the Public Financial Management Programme for the Period of 2016-2020 and it is the key topic within *IV pillar - effective financial control*. The PIFC Strategy is dependent upon the implementation of certain measures envisaged by the Public Administration Reform Strategy that it is also an integral part of.

In the period of 2004 - 2017, significant progress was made with regard to the attuning to and harmonization of the existing internal control systems in the public sector of the Republic of Serbia with the requirements of the concept of the Public Internal Financial Control, which was developed by the European Commission for the purpose of providing assistance to the countries in the process of accession in understanding and implementation of well developed and effective internal control systems, but there are still challenges in full and systematic implementation of the financial management and control and the internal audit by public funds beneficiary institutions.

The established level of financial management and control in public funds beneficiary institutions is of an uneven quality, and constant increase in the number of certified internal auditors in the public sector and the number of established internal audit units, has not sufficiently contributed to the diminishment of weaknesses of internal control and raising of the managerial accountability to an optimal level.

The CHU provides practical support to the executives and employees in public funds beneficiary institutions, who make assessments of possible weaknesses of their internal control systems, by proposing adequate changes and providing additional guidelines for internal control improvement.

The fundamental goal of the previous Strategy was establishing of the legal framework and

building of minimum institutional capacities for the implementation of the public internal financial control. The PIFC Strategy is focused on the incorporation of financial management and control into the management processes, particularly as the tool for preparation of budgetary policies, budget planning and execution. It is also focused on the improvement of the methodology of definition of goals, by transposing the national policy goals into the goals of the public sector institutions, which is essential for creation of an environment of sound internal control. The goal of the PIFC Strategy is also to ensure effective risk assessment and management, which will serve as the basis for establishment of the controls which will mitigate the established risks. This will contribute to the improvement of transparency, economy, efficiency and effectiveness in the spending of public funds, irrespective of the sources of financing. In addition, the PIFC Strategy supports 'ex-post' control, which is exercised by the Anti-fraud Coordination Services (the AFCOS) of the European Union and by the budget inspection. Improvement of the two essentially similar functions will contribute to the improvement of functionality and effectiveness of 'ex-post' control in detecting and preventing frauds, in compliance with the requirements of the European Union within the Negotiation Chapter 32 - Financial control.

With regard to the internal audit in the public sector, the PIFC Strategy is focused on the development of methodologies and building of capacities of internal audit, including on the increase in the number of internal auditors, establishing of an efficient and effective monitoring system, enhancement of their expertise and systematic approach in the control of the quality of work, setting up of adequate working conditions, according to the complexity and the workload they deal with. It is also necessary to continue to raise awareness of the managerial structures of public funds beneficiary institutions for the purpose of proper understanding of the internal audit function, in order to use it more efficiently as the tool for the management.

The PIFC Strategy deals with the improvement of the strategic framework and improvement of the regulations that are relevant for the implementation of the PIFC concept.

At the Second Intergovernmental Conference between the Republic of Serbia and the European Union, in Brussels, on 14 December 2015, the Negotiation Chapter 32 - Financial control, was opened.

The PIFC Strategy deals with the requirements emanating from the process of accession of the Republic of Serbia to the European Union within the Negotiation Chapter 32 - Financial control, stipulated in the Screening Report for the Negotiation Chapter 32 - Financial control, the Common Position of the European Union - Chapter 32 - Financial control, and in the 2016 Republic of Serbia Progress Report of the European Union. In the Common Position of the European Union - Chapter 32 - Financial control, requirements are specified for temporary closing of the Negotiation Chapter 32 - Financial control, once the following benchmarks are met: „Serbia amends its legal framework to ensure coherent PIFC legislation. Serbia implements PIFC legislation and the underlying policies and ensures sufficient administrative capacity at central and local level, in social security funds and in the state-owned companies. Serbia ensures that the centralized budget inspection function is compatible with the PIFC requirements“.

3 REACHED LEVEL OF DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL

3.1. REGULATORY AND INSTITUTIONAL FRAMEWORK

3.1.1. Regulatory Framework

The PIFC system is regulated by the Budget System Law (*Official Gazette of the RS*, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-correction, 108/13, 142/14, 68/15-another law, 103/15 and 99/16). This Law stipulates the components of the PIFC system, which consists of: financial management and control, internal audit and the role and responsibilities of the CHU. In compliance with the Law, the bylaws were adopted, specifically:

- The 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*, Nos. 99/11 and 106/13);
- The Rulebook on Common Criteria for Organization and Standards and Methodological Instructions for Internal Audit Acting and Reporting in Public Sector (*Official Gazette of the RS*, Nos. 99/11 and 106/13);
- The Rulebook on Conditions, Manner and Procedure for Taking an Exam and Obtaining a Title of Licensed Internal Auditor in the Public Sector (*Official Gazette of the RS*, No. 9/14).

The regulations on the system of internal financial control in the public sector impose the establishment and harmonization of the internal control system with internationally accepted standards, reporting on the establishing of the system and verification of the quality of the activities of the internal control system. The framework prescribed by the Budget System Law was elaborated by the Rulebook on Joint Criteria and Standards for Establishment, Functioning and Reporting on the System of Financial System and Control in Public Sector (hereinafter: the FMC Rulebook), the Rulebook on Common Criteria for Organization and Standards and Methodological Instructions for Internal Audit Acting and Reporting in Public Sector (hereinafter: the IA Rulebook), and even in more detail in the Financial Management and Control Manual (hereinafter: the FMC Manual) and the Internal Audit Manual (hereinafter: the IA Manual) of the Ministry of Finance - the CHU.

Public funds beneficiary institutions are also obliged to submit, on annual basis, information on financial management and control and internal audit within their respective organizations to the Minister of Finance through the CHU, for the purpose of compiling of the consolidated annual report on the status of the internal financial control system in the public sector, which is adopted by the Government.

The professional training programme, as well as the method of organizing of exams based on which the Minister of Finance issues the certificate to a candidate who passed the exam for acquiring of the title of a licensed internal auditor in the public sector is prescribed in the Rulebook on Conditions, Manner and Procedure for Taking an Exam and Obtaining a Title of Licensed Internal Auditor in the Public Sector (hereinafter: the Certification Rulebook).

Amendments of and supplements to the specified regulations and supporting manuals are written up as required.

3.1.2. Institutional Framework

The main drivers of establishment and development of the internal financial control system are the public funds beneficiary institutions and the Ministry of Finance - the CHU. During the period of the implementation of the previous Strategy, the CHU worked on the preparation of draft laws and regulations and development of human resources required for the support to the development of the PIFC system.

Financial Management and Control

The executives of public funds beneficiary institutions are responsible for the establishment, maintenance, and regular updating of the financial management and control system. The executives may delegate their powers but not the responsibility, for establishment, maintenance, and regular updating of the financial management and control system, to the persons they authorize.

The executives of public funds beneficiary institutions may appoint one senior executive who will coordinate the work on the establishment, maintenance, and regular updating of the financial management and control system inside their respective organizations and be coordinators between internal organizational units in such organizations for the purpose of further development of the financial management and control.

The CHU organized the basic training in financial management and control, so that, as at 31 December 2016, 1731 executives and employees in the public sector attended the training.

The programme of basic training in financial management and control includes four areas, specifically:

- Introduction in the internal financial control in the public sector;
- Integrated framework of internal control, the COSO model;
- Risk management system;
- Managerial control system.

Internal Audit

An executive of a public funds beneficiary institution is responsible for the establishment and provision of conditions for adequate functioning of internal audit. The internal audit of a public funds beneficiary institution is established in one of the following manners:

1. By organizing a separate functionally independent organizational internal audit unit inside a public funds beneficiary institution, which directly reports to the executive of the public funds beneficiary institution;
2. By organizing a joint internal audit unit at the proposal of two or more public funds beneficiary institutions, subject to the previous approval from the CHU of the Ministry of Finance;
3. By conducting internal audit by the internal audit unit of public funds beneficiary institution, based on an agreement, subject to the previous approval from the CHU of the Ministry of Finance.

Exceptionally, where there are no conditions to organize the internal audit unit, the affairs of the internal audit unit may also be discharged by an internal auditor employed in the public funds beneficiary institution.

An internal audit unit may not have less than three internal auditors one of whom is the executive of the internal audit unit. The number of internal auditors is determined by the public funds beneficiary institution by an internal enactment, based on the risk assessment, the volume and complexity of business processes, the amount of funds at its disposal and the number of employees.

An internal audit unit and an internal auditor are functionally and organization-wise independent and directly report to the executive of the public funds beneficiary institution.

The CHU organized the basic training for internal auditors so that, as at 30 December 2016, 837 candidates from the public sector attended the training. After the completed hands-on training for internal auditors, the exam for acquiring of the title of a licensed internal auditor in the public sector, as at 31 December 2016, was successfully passed by 330 internal auditors, who possess the certificate to work in the capacity of a licensed internal auditor in the public sector. Thus qualified persons work in the bodies of the central state authorities, mandatory social insurance funds, local self-government and public companies.

The programme of training for the acquisition of the professional title of a licensed internal auditor in the public sector includes:

1. The basic training in financial management and control lasting five working days, or 35 working hours, which includes four areas:
 - Introduction in the internal financial control in the public sector;
 - Integrated framework of internal control, the COSO model;
 - Risk management system;
 - Managerial control system.
2. The basic training for internal auditors lasting seven working days, or 49 working hours, which includes three areas:
 - Standards, policies and environment of internal audit;
 - Conducting of internal audit;
 - Skills and techniques of internal audit, including the tools for internal audit.
3. The hands-on training in internal audit through conducting of two audits in the public funds beneficiary institution in which the person, who is trained, is employed at the internal audit position, with the professional assistance of the Ministry of Finance, in the manner stipulated in the IA Rulebook.

The internal audit has been established in all the ministries, in three mandatory social insurance funds, quite a number of public funds beneficiary institutions at the Republic level and a limited number of public funds beneficiary institutions at the local self-government level.

Improvement of the internal control system calls for further building of administrative capacities, coordination of all the participants in the PIFC, as well as further education and training of persons in charge of the financial management and control and of internal auditors.

Central Harmonization Unit

The CHU is organized in two groups, for financial management and control, and for internal audit. Out of ten positions stipulated by the Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance, as at 31 December 2016, nine have been filled up. The Department for Internal Control and Internal Audit in the Ministry of Finance administers the affairs and performs the function of the CHU.

As to the functional sharing of the workload in the previous period, certain functions were performed in both groups. Bearing in mind the volume and complexity of the workload that had to be dealt with according to the plan of activities from the previous Strategy, employees from the group for financial management and control participated in dealing with the workload of the internal audit group and vice versa. Due to the limited number of employees, strict specialization and division of functions by groups could not be adhered to, without significantly affecting the efficiency and effectiveness of carrying out of the tasks from the action plan.

The Budget System Law prescribes that the CHU shall work on the harmonization of the financial management and control and the internal audit by carrying out of the assignments of:

1. Central harmonization, coordination, monitoring of the implementation and assessment of the quality of the financial management and control and the internal audit in the public sector;
2. Definition of the common criteria and standards for the establishment and functioning of the financial management and control system;
3. Definition of the common criteria for the organization and operation of the internal audit in the public sector;
4. Maintaining of the register of licensed internal auditors in the public sector and records of internal audit charters;
5. Professional improvement, certification and supervision over the work of internal auditors;
6. Professional improvement of executives and employees in the public sector in the area of the financial management and control, in compliance with internationally adopted standards;
7. Consolidation of annual reports on the status of the financial management and control and the internal audit.

3.2. ELEMENTS OF INTERNAL FINANCIAL CONTROL IN THE PUBLIC SECTOR

3.2.1. Financial Management and Control - Present Status

The activities on the establishment and development of the financial management and control have been initiated, primarily through the drafting of regulations and the organization of training. The financial management and control is defined as the system of policies, procedures and activities that are established, maintained and regularly updated by the executive of an organization, which, by managing risks, provide the assurance to a reasonable extent that the goals of the organization will be achieved in a proper, economical, efficient and effective manner.

Introduction and maintenance of the financial management and control system constitutes the groundwork for the implementation of the managerial accountability concept. This means that executives of public funds beneficiary institutions bear the responsibility for the delegated financial, managerial and programming powers. Executives bear the responsibility for the planning and programming (setting and achievement of goals), preparation of the budget/financial plan, execution of the budget/financial plan, accounting, control, reporting, archiving of the accounting and other documentation and for supervision. Executives are accountable for the establishment and proper functioning of the financial management and control system in their respective organizations.

A great number of executives of public funds beneficiary institutions have not yet managed to establish the procedures for the implementation of certain work processes. The number of executives who have completed the training in the area of the financial management and control is insufficient, and judging by that fact, the lack of real knowledge about all the elements of the financial management and control in the public sector is obvious. This emphasizes the need to raise the level of knowledge about the competences that exist within the internal control system. Executives are insufficiently familiarized with risk management and since such management may help their respective institutions to achieve their goals, because only a limited number of public funds beneficiary institutions have risk management plans and records of risks. In risk management, almost all attention is currently devoted to the compliance with regulations and the risks related to the goals of the organization are not taken

into consideration and that is why the strengthening of risk management is the key element of the PIFC Strategy.

Managerial accountability is defined in the Budget System Law as the obligation of the executives at all the levels of governance in public funds beneficiary institutions to administer all the affairs lawfully, adhering to the principles of economy, effectiveness, efficiency and transparency, as well as to be accountable for their decisions, actions and results to the one who has appointed them or delegated the responsibility to them. The Budget System Law stipulates the division of duties in order to prevent conflict of interest, and managerial accountability is elaborated in more detail in the FMC Rulebook. Although the FMC Rulebook stipulates this possibility, powers and responsibilities are delegated to a limited extent in practice and the financial management and control systems are centralized at the higher management level.

The mechanisms for delegation of managerial accountability that would help the executives of public funds beneficiary institutions in the regulation of accountability of lower-level executives within public funds beneficiary institutions for the achievement of their goals and management of funds allocated to them for their realization have not been fully developed, i.e. the link between the achievement of goals and the funds allocated for realization of such goals is not always directly presented.

Enhancement of accountability of executives calls for more active participation of all the executives in the activities related to the budget preparation and execution.

The CHU organized workshops for public funds beneficiary institutions about the internal control systems and procedures, about the preparation of graphical presentations of work flow (audit trail) and formation of the register of risks, out of which the two last elements constitute the key part of the financial management and control component.

The training in financial management and control is provided at several levels. The CHU organizes one-day training courses for executives at higher positions. Five-day training courses have been provided for experts/coordinators of financial management and control and for candidates for acquiring of the title of a licensed internal auditor in the public sector.

By analytical processing of annual reports on the financial management and control for 2015, submitted by public funds beneficiary institutions to the CHU, it was established that, out of 591, 452 started listing and describing the business processes, 297 produced maps of business processes, and 415 established internal controls in the business processes taking into consideration the most significant risks.

For the establishment of the financial management and control system, public funds beneficiary institutions used the FMC Manual, so that they have initiated the procedure of documenting of the business processes (creating audit trail) in compliance with the International Internal Audit Standards.

3.2.2. Internal Audit - Present Status

The Budget System Law prescribes that the functionally independent and decentralized internal audit is the obligation of all the public funds beneficiary institutions. The Law does not set any deadlines for its establishment, starting from the assumption that the issue of the deadline for establishing of the internal audit is the matter of awareness and understanding of the benefit of this function by the top executives in public funds beneficiary institutions. The Law defines the internal audit as the activity that provides independent objective assurance and advice to the management, the purpose being to contribute to the improvement of the business operation of the organization; it helps the organization to achieve its goals, by its systematic and disciplined assessment and evaluation of risk management, controls and management of the organization.

The IA Rulebook prescribes that public funds beneficiary institutions may establish the internal audit function, by organizing separate functionally independent organizational internal audit units within public funds beneficiary institutions, but mandatory in the ministries and public

funds beneficiary institutions having over 250 employees; by organizing a joint internal audit unit at the proposal of two or more public funds beneficiary institutions; by conducting internal audit by the internal audit unit of another public funds beneficiary institution based on an agreement; exceptionally, where there are no conditions to organize the internal audit unit, the internal audit unit affairs may also be administered by an internal auditor employed in the public funds beneficiary institution.

In indirect beneficiaries of the budgetary funds of the Republic of Serbia, which have not established the internal audit in one of the prescribed manners, internal audit affairs are administered by the internal audit unit of the competent direct beneficiary of budgetary funds, in compliance with its own work plan. A separate functionally independent organizational internal audit unit is established in the autonomous provinces, the City of Belgrade, cities and municipalities having the right to conduct audit in the entities from their respective spheres of competence, and based on their own work plans.

Introduction and development of this function calls for adequate training, certification and other necessary resources. In the procedure for acquiring of the title of a licensed internal auditor in the public sector, trainees undergo the basic theoretical training, after which they undergo hands-on training organized by the CHU of the Ministry of Finance.

By the analytical processing of 295 received annual reports on the IA for 2015, in the public sector of the Republic of Serbia, internal audit function was introduced, as at 31 December 2015, in 180 PFBIs having 478 systematized and 373 filled up internal auditor positions.

At the Republic level, as at 31 December 2015, in 75 public funds beneficiary institutions, the internal audit was established with 259 systematized and 211 filled up internal auditor positions. The audit was established in all the 16 ministries and three mandatory social insurance organizations.

At the level of the units of territorial autonomy and local self-governments, the internal audit function was established in 33, with 120 systematized and 77 filled up internal auditor positions.

Certain number of issues, which are related to the independence and the status of the internal audit, the quality of strategic and annual internal audit plans, the number of audits conducted and the quality of audit reports, remain unresolved. Up to now, internal auditors have been concentrated on the audit of lower-tier goals. Audits of complex systems in the priority areas, such as strategic planning, programming, functioning of IT systems and producing of the best possible value for money results, have been neglected.

Public funds beneficiary institutions that utilize the European Union pre-accession funds do not have the required number of auditors, but it is a part of a wider problem of availability of audit resources, which maybe points to the fact that audit does not belong to the priorities of the managerial structures of public funds beneficiary institutions.

The management of the IPA funds in compliance with the requirements of the European Commission will not be possible without competent internal auditors in public funds beneficiary institutions who participate in the implementation of the IPA projects.

A wider cooperation is lacking between the internal audit and managerial structures, which is the precondition for the improvement of the internal audit quality and status.

The public funds beneficiary institutions that have established the internal audit with one internal auditor account for 63%, those having two internal auditors account for 14% and, those having three and more internal auditors, for 23%. A large percentage of the established internal audit units having two and less employees casts into doubt the ability to fully comply with the internal audit standards.

The existing systematized job positions for internal auditors are not completely filled up because of statutory limitations on the maximum number of employees, lack of highly educated staff, low earnings, inadequacy of systematized functional titles as compared to the volume and complexity of the workload and the competition of the private sector.

3.2.3. Central Harmonization Unit - Present Status

The Central Harmonization Unit is organized in two groups, the group for financial management and control, and the internal audit group. Out of ten positions envisaged by the Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance, as at 31 December 2016, nine were filled up. The Department for Internal Control and Internal Audit in the Ministry of Finance administers the affairs and performs the function of the CHU.

The number of systematized job positions is not sufficient to deal with the existing assignments that require a higher focus on the monitoring of the progress made in the area of the implementation of the internal financial control in the public sector as well as on the provision of adequate practical advisory support to public funds beneficiary institutions and organizing of exams for certification of internal auditors.

The Central Harmonization Unit was faced with problems with regard to the capacities in the previous period, mainly due to the reduction in the number of employees and because the majority of employees were engaged in the provision of training and on the programmes of certification of licensed internal auditors. In addition, the position of the assistant minister in charge of the Central Harmonization Unit in the Ministry of Finance was vacant for months.

Based on the questionnaires received by public funds beneficiary institutions, the CHU compiles the consolidated annual report on the PIFC status, which it submits to the minister in charge of finance affairs. Bearing in mind the task of the CHU to compile, for the requirements of the minister and the Government, the consolidated annual report on the PIFC status at the public sector level, the reports that it has been making since 2009, provide insight into the global picture and the change of the status in the area of the internal control at the public sector level. For the above reason, the report does not specify detailed data per every public funds beneficiary institution, for the purpose of comparison of year in year out changes or presentation of the real status of the internal control system in individual public funds beneficiary institutions. Currently there is no other way to collect information or there is no monitoring system, which would contribute to the annual reporting on public funds beneficiary institutions individually. The development of a special IT tool - software is under way, which would to a great extent facilitate and automate the manner of collection of questionnaires and data processing, which are submitted by public funds beneficiary institutions.

The processes of raising awareness and dissemination of knowledge by the CHU to all the public funds beneficiary institutions are facilitated by the posting of the Web page of the CHU (within the Web site of the Ministry of Finance) on which there are the regulations and materials on the financial management and control and the internal audit, which to a great extent contributes to the central harmonization and coordination of the internal control system.

Within the activities that the CHU is undertaking aimed to raise awareness about the PIFC among all the public funds beneficiary institutions (executives, employees, internal auditors), during the previous period, the functional assessment of the selected public funds beneficiary institutions was made, and several meetings and workshops were organized as well. However, the level of the awareness about the PIFC, the financial management and control, the internal audit and the concrete role of the CHU, is still insufficient. The lack of dissemination of information is more pronounced at the higher level of managerial structures, while it is less present at the level of middle- and lower-level executives.

The scope of work from the powers of the CHU covers the entire public sector, and the activities based on the previous Strategy were primarily concentrated on the Republic level, while the introduction of the internal control system at the local self-government level was limited.

3.3. HARMONIZATION WITH THE COSO FRAMEWORK

The Committee of Sponsoring Organizations (the COSO) of the National Commission on Fraudulent Financial Reporting founded in the United States of America, in 1992, published the document titled: Internal Control - Integrated Framework, which defined the internal control as the „a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives“ in keeping with four categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and processes;
- Protection of assets.

The overview of the harmonization with the COSO Framework is based on the comparison of the statistical data that the CHU has processed, and which originate from the questionnaire for self-evaluation of public funds beneficiary institutions, which constitute an integral part of annual reports on the financial management and control, which are published within the Consolidated Annual Reports on Internal Financial Control in the public sector.

The elements of the COSO Framework are:

- Control environment;
- Risk management;
- Control activities;
- Information and communication;
- Monitoring (supervision) and assessment.

Control environment sets the „tone“ in an organization and has influence on the staff awareness about the controls. It constitutes the basis for all the other internal control components, ensuring the discipline and structure. Factors of control environment include integrity, ethical values and competence of employees in an organization, philosophy and style of the work of the management, the manner in which the management delegates powers, responsibilities and establishes adequate reporting lines and organizes and improves the staff. A part of the questionnaire that is related to the control environment contains twelve questions, so that every public funds beneficiary institution could score maximum 60 points. The questions are related to the existence and the implementation of the code of conduct, criteria for establishing of efficiency of the human resources policy and the existence of the level of knowledge and skills required for every position, the existence of the system of protection of assets from unauthorized access and use, and the obligation of regular reporting on risk management, the internal control and the internal audit.

Risk management comprises identification, assessment and control over potential events and situations that may have a contrary effect on the achievement of goals of the public funds beneficiary institution. The precondition for risk management is establishing of the overall and specific objectives that an organization should attain. The task of risk management is to provide reasonable assurance that the goals will be achieved. For the purpose of risk management, an executive of a public funds beneficiary institution should adopt the risk management strategy, which needs to be updated every three years, as well as in case when the control environment is significantly changed. To bring down risks to an acceptable level, a public funds beneficiary institution must analyze the established controls and update them minimum once a year. Risk assessment is included in the self-evaluation questionnaire, by the questions that are related to: the definition of long-term operation goals, familiarization of the staff with operation goals, the system of monitoring of achievement of goals and the analysis of causes of possible deviations, risk identification and assessment, as well as taking of decisions in order to resolve the identified risks.

Control activities include written policies and procedures, established to provide reasonable assurance that the risks to achieve goals have been brought down to an acceptable level defined in the procedures for risk management, including their application. They are carried out across the entire organization, at all the levels and functions by all the employees, in compliance with the established business process and job position description. Assessment of control activities is covered by the questions as to whether the following has been prepared: detailed descriptions of business processes including the documentation flow, detailed descriptions of work procedures, operating manuals, procedures for access to data and records, as well as the rules of division of duties and making of self-evaluation of internal controls.

Reliable **information and effective communication** are indispensable for the management and control of operation of public funds beneficiary institutions. The questionnaire includes assessment of the existence of a successful and effective internal communication system and system of monitoring the achievement of goals of public funds beneficiary institutions, the process of recording of errors or complaints, establishing of the reasons and elimination of problems, the system of copying and keeping data, or of retrieval in case of loss thereof and the ability of employees to report irregularities and problems.

Monitoring and assessment imply introduction of the system to supervise over the areas of the financial management and control, by evaluating the adequacy and efficiency of its functioning. The assessment of this element contains seven questions which cover the establishment of the reporting structure intended for objectivity and independence of the internal audit, cooperation between executives of public funds beneficiary institutions and the internal audit, acting on the recommendations of external and internal auditors for improvement of the internal control system, existence of manuals for procedures in case of lack of controls.

Detailed presentation of assessment of individual elements of the financial management and control system from the Consolidated Annual Report for 2015 on the PIFC Status, by individual categories of public funds beneficiary institutions, is shown in Table 1.

Table 1

Average grade of elements of the FMC system by the PFBI categories for 2015											
Parameters PFBI categories		Control environment (maximum 60 points)		Risk management (maximum 55 points)		Control activities (maximum 50 points)		Information and communication (maximum 35 points)		Monitoring (supervision) and assessment (maximum 35 points)	
		points	%	points	%	points	%	points	%	points	%
Central Republic level	Ministries	49	82	43	78	34	68	27	77	24	69
	OOSO*	54	90	51	93	47	94	35	100	31	89
	Others**	47	78	42	76	36	72	28	80	19	54
	Average	47	78	42	76	36	72	28	80	19	54
Local level	Local self-government	39	65	37	67	31	62	24	68	16	46
	Others***	43	72	41	75	33	66	27	77	16	46
	Average	41	68	39	71	32	64	26	74	16	46
AVERAGE IN THE RS		43	72	38	69	33	66	26	74	17	49

- OOSO* - Mandatory social insurance organizations
- Others** - Public funds beneficiary institutions at the central (Republic) level, except for the ministries and the OOSOs
- Others*** - Public funds beneficiary institutions at the local self-government level, except for the units of local self-government

Observed at the public sector level, the ranking of the evaluated elements of the FMC system is as follows:

1. Information and communication (74%)
2. Control environment (72%)
3. Risk management (69%)
4. Control activities (66%)
5. Monitoring/supervision and assessment (49%).

3.3.1. Control Environment

The high grades of the control environment component indicate the existence of a broad legal framework which to a good extent regulates the organization of the government administration and the public sector institutions, delegation of powers, reporting lines, ethical standards and values as well as human resources management. This ensures the complete control environment in which the public sector is sustainable and operational. The existing framework ensures sustainable and partly limited environment for efficient management of resources in the public sector.

The Constitution of the Republic of Serbia, the State Administration Law (*Official Gazette of the RS*, Nos. 79/05, 101/07, 95/10 and 99/14), the Law on Civil Servants (*Official Gazette of the RS*, Nos. 79/05, 81/05-correction, 83/05-correction, 64/07, 67/07-correction, 116/08, 104/09 and 99/14), the Code of Ethics of Civil Servants, and the Law on the Protection of Whistleblowers (*Official Gazette of the RS*, No. 128/14), constitute the basic framework which ensures the integrity of the state, the government administration, and civil servants, applicable ethical values and prescribed in detail the prevention of conflict of interest, rights and duties related to the revealing of and reporting on irregularities and abuses of public resources. In addition, the issues of integrity are regulated by the Law on the Anti-corruption Agency (*Official Gazette of the RS*, Nos. 97/08, 53/10, 66/11 - the CC, 67/13 - the CC, 112/13 - authentic interpretation and 8/15 - the CC), which defines certain rights and duties including the requirements, such as preparation of integrity plans.

The basic elements that are related to this principle have been adopted at the national level. Additionally, it has been planned to improve the legal framework, through amendments that will ensure consistency and improve the laws that apply to the integrity and ethical values within the government administration reform and the judiciary reform.

The measures, envisaged by the Action Plan for the public administration reform, aim to strengthen the integrity and ethical standards of employees in the government administration and to mitigate corruption by strengthening prevention mechanisms, improve the manner in which the compliance with ethical standards and integrity is ensured and to increase effectiveness of the protection of whistleblowers¹. In addition, the Public Administration Reform Strategy (*Official Gazette of the RS*, Nos. 9/14 and 42/14-correction) aims to strengthen the supervision over the entire government administration by improvement of the legal framework and capacities of the Anti-corruption Agency, the Protector of Citizens (Ombudsman), the Commissioner for Information of Public Importance and Personal Data Protection, and the Commissioner for Protection of Equality, as well as the capacities of the State Audit Institution.

The Budget System Law obligates public funds beneficiary institutions to establish the internal control system that includes the monitoring and evaluation of their efficiency and effectiveness.

Regulations in the area of the government administration prescribe that the government bodies exercise supervision over the work and performance of other government bodies and holders of public powers in performing the duties that are entrusted to them. The internal oversight consists of

¹ **Measure 5.2** Strengthening the integrity and ethical standards of employees in the government administration and corruption mitigation through strengthening of prevention mechanisms, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

the supervision over the work, inspection supervision by the administrative inspection and other forms of oversight regulated by special laws.

There are two basic types of the oversight practices in the public sector – supervision over the compliance and supervision over the functionality. The supervision over the compliance verifies the application of laws and other enactments while the supervision over the functionality investigates the effectiveness and economy in the work and the performance of the organization.

The oversight function, which is defined by certain laws, significantly differs from one institution to another. The reasons for this involve the lack of adequate resources to exercise effective supervision, as well as the lack of capacities of supervisory bodies to exercise effective control.

The goal of the Public Administration Reform Strategy is to improve the legal framework and institutional capacities for implementation of effective supervision in the government administration of the Republic of Serbia at all the levels and irrespective of the type of supervision (supervision inside an organization or supervision between institutions).

The State Administration Law stipulates the principles based on which the government bodies work and defines the tasks of the government administration and organization of the government bodies.

The establishment of the bodies and institutions in the public sector are stipulated by the laws and their affairs and functions are elaborated in more detail in the bylaws. In line with the above, the Decree on the Principles of Internal Organization and Systematization of Working Posts in Ministries, Special Organizations and Services of the Government (*Official Gazette of the RS*, Nos. 81/07-consolidated text, 69/08, 98/12 and 87/13) elaborates in principle the rules of internal organization and systematization of job positions that can also be applied to other public funds beneficiary institutions.

Individual regulations on internal organization and systematization of job positions in the public sector constitute the starting point based on which executives transpose the description of powers stipulated in the Law on Ministries and other special laws, job position description and powers of employees in the given institution into the internal organizational structure.

The acts related to the organization and systematization of job positions in the public sector stipulate the assignments within the competences of employees in specific institution, body or organization. Such acts enable grouping of the same or similar mutually interconnected tasks and assignments into appropriate internal units within the bodies, institutions and organizations and ensure transparency in the work of such subjects.

The above regulations constitute the basic framework for establishing of the internal control system at the public funds beneficiary institutions level and for this reason they are connected with the relevant principles of the COSO Framework.

The basic framework is supplemented by applying the regulations that govern the management of the European Union funds in the Republic of Serbia. The Decree on the Management of the EU Pre-Accession Assistance Programmes under Component I of the Instrument for Pre-Accession (IPA) – Transition Assistance and Institution Building for the Period of 2007-2013 (*Official Gazette of the RS*, No. 140/14), the Decision on Appointing the Responsible Persons and Bodies in the System of Managing the EU Pre-Accession Assistance Programmes for the Period of 2007-2013 (*Official Gazette of the RS*, Nos. 140/14 and 105/16), the Decree on the Management of the EU Pre-Accession Assistance Programmes under the Pre-accession Assistance Instrument (IPA II) for 2014-2020 (*Official Gazette of the RS*, No. 86/15) and the Decision on Appointing the Responsible Persons and Bodies for the Management of the EU Pre-Accession Assistance Programmes under the Pre-accession Assistance Instrument (IPA II) for the Period of 2014-2020 (*Official Gazette of the RS*, Nos. 93/15 and 105/16), establish the structure, reporting lines, authorizations and powers of all the stakeholders in the government administration of the Republic of Serbia that participate in the management of the European Union pre-accession assistance programmes.

The Decree on Appointing the Audit Authority for Auditing the Management System for Pre-accession Assistance Programmes of the European Union under the Instrument for Pre-accession Assistance (IPA) additionally defines the roles and the powers of the audit body that will conduct the audit of the European Union funds (*Official Gazette of the RS*, No. 113/13).

The laws and bylaws related to the area of labour prescribe that the number of required employees, as well as the requirements for employment at the positions in the bodies, institutions and organizations are determined by the acts on the organization and systematization of job positions.

Public funds beneficiary institutions are preparing the human resources plans, which define the required number of positions for every budgetary year depending on the funds at their disposal. The criteria for filling up of the positions are prescribed by the Rulebook on Professional Qualifications, Knowledge and Skills Assessed in the Selection Procedure, Modes for their Verification and Selection Criteria (*Official Gazette of the RS*, Nos. 79/05, 81/05-correction and 83/05-correction), approved by the Human Resources Management Service.

The regulations that govern labour relations in the public sector stipulate that, in case of a need, an executive who manages a body, may also assign other assignments to an employee that are not specified in the description of his/her job position, and that correspond to his/her qualifications and competence.

The regulations on labour relations in the bodies of the government administration define the manner of employment, assignment of tasks and evaluation of civil servants. Clear definition of individual objectives and their link with the goals of the institution constitute the key to the implementation and strengthening of the managerial accountability, which is the basis for the delegation of powers that ensures a higher level of accountability of civil servants.

The existing regulations governing the employment and labour relations are not flexible and limit the powers of executives in public funds beneficiary institutions that are related to the human resources management.

The above regulations obligate employees to undergo professional improvement in compliance with the requirements of the bodies and concrete requirements of their job positions. The funds for advanced professional training programmes are provided from the budget of the Republic of Serbia based on the programmes that establish the method and type of advanced professional training programmes. The regulations governing labour relations in the public sector stipulate that employees in institutions, bodies and organizations, which is also related to the appointed persons, must attend advanced professional training programmes during their work engagement, and participate in all the forms of advanced professional training organized by the institution in which they are employed or where they have moved to in order to work temporarily.

Professional development of employees has been systematically well developed in the government administration, while the job placement and employment of such employees are still undertaken according to occasional assessment of needs, and not based on the analysis of the actual workload.

The public sector lacks a clear and sustainable policy to retain employees, due to which the maintenance of continuity in operation is aggravated because qualified professional employees leave the public sector or move from one public institution to another in order to get better working conditions, out of which increase of salary plays an important, but not the key role.

The programmes for professional training of executives in the public sector that have been provided by the Human Resources Management Service have a positive impact on the development and enhancement of skills in the management of operational executives. However, it is still necessary to make efforts in the building of sustainable and stable managerial structure in the government administration.

The Ministry of Government Administration and Local Self-government has taken on the leading role in the improvement of the existing human resources management system², by establishing the framework of policies for the strategic human resources management and improvement of the existing instruments for human resources management, by improving and strengthening of the institutional framework for implementation of the strategic human resources management function

² **Measure 2.2** Development of the strategic function for human resources management in the government administration, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

³ **Measure 2.1** Establishing of the coordinated labour relations and salary system in the government administration based on the principles of transparency and equity, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

and introducing the measures for prevention of „politicization“ of employment, loosening of quality civil servants in order to attract and retain qualified professionals, by establishing the coordinated labour relations and salary system³. The success in the implementation of this measure of the government administration reform will contribute to the securing of professional manpower, as well as professional managerial staff.

Despite the existence of the legal framework, which is the basis for the accountable conduct in the public sector, lower-level executives and other employees perform the entrusted tasks only to a certain extent, which is the consequence of their inability to assume full responsibility for performance of the delegated tasks, activities and other powers. The imbalance in the „triangle of responsibility“ is frequent in all the parts of the public sector because delegated powers are not accompanied by the necessary resources required to exercise them.

The Ministry of Government Administration and Local Self-government coordinates the organizational and functional restructuring of the government administration in order to get to an adequate size in terms of the number of and adequacy of institutions, number of employees, positions and in order to improve the work processes and organizational structure⁴. Some of the efforts that are made in the implementation of this measure are to do with the improvement of the framework for accountability of executives in compliance with the principles of the government administration⁵ as well as with the establishing of the framework for management of performance, or work results, which will consolidate all the existing elements of the management of work results into a consistent system of management of performance, or work results⁶.

In compliance with the activities that are implemented for the purpose of simpler planning and programming of all the public funds to the maximum possible extent, and building of a single, consolidated financial management system in the public sector, attention will be particularly devoted to the simplification of procedures for the management and control of the European Union pre-accession assistance programmes and the funds from the budget of the Republic of Serbia in order to ensure a sound basis for future management of the European Union structural instruments.

This constitutes the key point of the long-term reform activities because it is aimed to ensure establishing of the reliable control environment that will guarantee the existence of an optimal framework that will enable public funds beneficiary institutions to execute their approved budgets and other funds allocated to them in an efficient and effective manner and in compliance with the principles of reliable financial management.

3.3.2. Risk Assessment

The State Administration Law obligates the ministries and special organizations to prepare their respective annual work plans based on which the annual work plan of the Government is prepared.

The Rules of Procedure of the Government (*Official Gazette of the RS*, No. 61/06 – consolidated text, 69/08, 88/09, 33/10, 69/10, 20/11, 37/11, 30/13 and 76/14) prescribes that the Government shall adopt the Annual Work Plan, establish goals and activities of the Government, as well as goals and activities the government bodies and expected results. This plan is prepared based on the annual work plans of the government bodies prepared in compliance with the methodology of mid-term

⁴ **Measure 1.1** Organizational and functional restructuring of the government administration up to 2016 based on the measures for establishing of an adequate size of the government administration in terms of the number and adequacy of institutions, number of employees, work processes and organizational structure including creation of a strong analytical base for such processes, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

⁵ **Result 1.1.5** Established framework for enhancement of accountability of executives in the government administration in line with the principles of the government administration, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

⁶ **Result 1.1.6** Established framework for management of performance, or work results in the government administration, which interconnects all the existing elements of work results management, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

planning, which is submitted to the General Secretariat via the IT planning and reporting system. The Government adopts the Annual Work Report in which the implementation of the Annual Work Plan and other activities that have been implemented and were not previously envisaged by the work plan is evaluated. The Annual Work Report is submitted to the National Assembly.

The methodologies prescribed by the European Commission, which regulate the planning and implementation of the European Union assistance programmes under the Pre-accession Assistance Instrument (IPA), had a positive impact on amendments and improvement of the system of planning and management of the funds of the budget of the Republic of Serbia. Similarly to the amended Multi-annual Indicative Planning Document for the Period of 2011-2013, the three-year planning document prepared by the European Commission for the countries beneficiaries of the IPA funds, which defines the policy goals in compliance with the European Union Enlargement Strategy and in compliance with the 'sectoral approach', the government bodies in the Republic of Serbia have prepared the Document on Assessment of the Needs for International Assistance, a three-year indicative planning document which gathers together the priorities taken over from numerous strategies that had existed in different sectors and which have then been aligned with the priorities in the Multi-annual Indicative Planning Document.

The national economic reform programme, the preparation of which is one of the conditions for accession to the European Union, which replaced the previous Pre-accession Economic Programme and which covered a large part of the Needs Assessment Document, constitutes a new incentive to the economic planning and the planning of sectoral policies in the Republic of Serbia where the development of competitiveness and economic growth are in the focus.

The Republic of Serbia has prepared the second Economic Reform Programme for the Period of 2016-2018 through the coordinated efforts of relevant stakeholders. The Government adopted it in February 2016.

As a part of the overall public administration reform, the Government is endeavouring to establish a single system for the management of public policies, which will upgrade the quality as well as the consistency of public policies in compliance with the adopted standards and improve mid-term planning and planning at annual level in the public sector based on the Government priorities, enhancing at the same time the transparency of the management of public policies⁷.

Results of the above measures will lay the groundwork for the definition of an adequate scope of powers of the analysis and planning units at the level of public funds beneficiary institutions and for their further strengthening for the requirements of planning of policies and the budget⁸, as well as for coordination of the financial management and control at the level of institutions.

The Budget System Law obligates public funds beneficiary institutions to establish the financial management and control system which, *inter alia*, includes risk management. The FMC Rulebook defines risk management as certain number of activities that are implemented in order to identify, assess and control possible events and situations that may have a negative impact on the achievement of goals of public funds beneficiary institutions, with the task to provide reasonable assurance that the goals of an organization will be realized.

Executives of public funds beneficiary institutions have the obligation to adopt the risk management strategy, which needs to be updated every three years and adapted to any major change of the control environment.

The control by which a risk is mitigated to an acceptable level must be analyzed and updated minimum once a year. Risk management implies introduction of an adequate control to mitigate risks, in compliance with the international internal audit standards.

In practice, public funds beneficiary institutions assess various types of risks to which their

⁷ **Measure 1.3** Improvement of the system of management of public policies of the Government (planning, analysis, drafting, adoption, monitoring and evaluation and coordination) by establishing the legal and institutional framework for integrated strategic management up to the end of 2016 and adoption of mid-term work plans of the SAB in line with strategic priorities of the Government and the programme budget, the **AP for the implementation of the Public Administration Reform Strategy, 2015**.

⁸ **Result 6.2** The analysis and planning units in government bodies introduced to support linked planning of the budget and policies, the **PFM RP, 2015**

institution is exposed more on the 'intuitive' basis than by applying the prescribed methodology, focusing on assessment of the risks that are connected with the alignment of the work and the laws, and not on the risks that affect their performance.

Risk management is applied by all the public funds beneficiary institutions but to a lower level of complexity. Despite the fact that the overall framework has already been established, public funds beneficiary institutions need additional assistance in identifying risks, because the risks are mainly established and assessed as compared to the requirements prescribed by the law, and not with respect to the goals of the actual organization.

Prevention of frauds, or suppressing of frauds, is an integral part of the risk management process.

The government administration implements activities that will enable establishment of the system of assessment of risks of frauds based on relevant guidelines and suggestions of the European Anti-Fraud Office (OLAF), which are primarily focused on assessment of risks of frauds in the management of the European Union funds.

The measures that are related to assessment of risks of frauds with respect to the management of the European Union funds, for the purpose of maximum protection of financial interests of the European Union will be dealt with in the anti-fraud strategy⁹, which is currently in the last stage of drafting.

With the exception of a few public institutions that have established a functional financial management and control system, as well as a specially adapted monitoring system to establish and assess changes that may have impact on the internal control system, when the establishing and resolving of weaknesses of the internal control are in question, majority of public funds beneficiary institutions rely on reports of their internal auditors or their internal audit units as well as on the findings and recommendations of the State Audit Institution and their annual audit reports.

3.3.3. Control Activities

Introduction and the implementation of control activities in public funds beneficiary institutions have been launched, in the majority of cases, to mitigate risks related to the compliance of the work with laws, and not to those that threaten the achievement of goals of public funds beneficiary institutions.

The laws prescribe the basic financial and administrative control, which ensures efficient and effective work processes.

The Budget System Law stipulates the division of duties in combination with the separation of powers as the fundamental principle to prevent partiality and conflict of interest. In addition, special provisions that apply to financial control can also be found in other legal acts, such as the Decree on Budgetary Accounting (*Official Gazette of the RS*, Nos. 125/03 and 12/06), which regulates the method of management of the consolidated treasury system, as well as other special acts and instructions issued by the minister of finance, which are related to the budgetary accounting and financial reporting of the bodies of the government administration. Those acts define the method of preparation, compiling and submitting of annual financial statements of all the budget beneficiaries and contain special provisions that apply to the financial control.

The financial control is an integral part of the overall control activities and, as such, it is essential for the securing of an efficient and effective work process. Additional efforts need to be made in the definition of concrete control activities to mitigate risks and their inclusion in the regular work processes.

The control activities are on the rise, but in addition to that, public funds beneficiary institutions must be diverted from compliance risks to operational risks, based on the CHU guidelines.

⁹Result 15.4 The Anti-fraud Strategy has been adopted, the PFM RP, 2015

The goal of the public administration is the transition to e-government and e-administration and, therefore, a special group of activities has been introduced in the government administration reform programme, which is implemented for the purpose of development and improvement of e-administration in the entire public sector and at the same time contains new and more advanced control techniques that will be introduced across the public sector in compliance with the goals of the Strategy for e-Governance Development.¹⁰

3.3.4. Information and Communication

Public funds beneficiary institutions make reports for both the internal and the external use that are an integral part of the internal control system. The reports on the status of the human resources management, reports on achieved goals, etc., are regularly prepared in different time frames, for the requirements of the managerial structure. Such reports contain information on the internal control management systems but in majority of cases, it is not singled out in separate reports on internal controls.

The top management rarely uses instruments such as the self-evaluation questionnaire, since executives have not yet realized the universal importance of the tools for internal control. Despite the great efforts that the CHU is making in the training of the top and medium-level management on the topic of the financial management and control, the awareness about their benefits has not reached an optimal level as yet.

Public funds beneficiary institutions are preparing the self-evaluation questionnaire to submit it to the CHU as a part of the annual report on the financial management and control system. The use of the self-evaluation questionnaire is most often limited to the meeting of the obligations that are related to the reporting to the CHU.

In compliance with their requirements, executives of public funds beneficiary institutions organize and regulate internal reporting at the institution level. The FMC Manual provides guidelines to public funds beneficiary institutions to form the Working Group for the financial management and control within the management of regular activities of internal control.

The most frequent method of coordination of exchange of information among public funds beneficiary institutions are regular meetings organized between the top management and the medium-level management of institutions (the so-called colleges of executive heads). Executives of public funds beneficiary institutions regularly organize them in the majority of cases in order to monitor the implementation of the work plan of the institution and in order to resolve current problems, as well as for the planning of the work of the institution in the period between two meetings. During such meetings, the issues of internal control are also discussed, but not necessarily consistently and systematically, and the discussions are mainly related to the issues related to employees, monitoring of expenditures, and similar issues. Generally, the number of issues of internal control that are discussed at such meetings is directly proportional to the level of development and the state of mind with respect to the benefits and importance of the financial management and control in the institution.

The CHU will continue to provide support to executives of public funds beneficiary institutions in order to enable them to better understand all the benefits of a fully functional financial management and control system, which as such, has been established to help the management of the institution. In this respect, in addition to the education of executives of public funds beneficiary institutions about formal and statutory requirements that are related to the financial management and control and the internal audit, the CHU will continue to clarify in what way the tools for the financial management and control can be used for the collection, processing and communication of information on the management of the internal control system, all for the purpose of improvement of operation and overall functioning and effectiveness of the institutions they manage.

¹⁰ **Measure 2.1** Establishing of powerful coordination mechanisms that will enable harmonized development and operation of e-administration, as well as creation of the legal framework and procedures for the development of e-governance, the **PFM RP, 2015**

The FMC Rulebook prescribes that an executive of a public funds beneficiary institution is obliged to submit the report to the Ministry of Finance (through the CHU) on the degree of adequacy and functioning of the established financial management and control systems, up to 31 March of the current year for the previous year, in the form that the CHU has prescribed.

Increased degree of transparency and visibility of the work of public funds beneficiary institutions will be resolved by the measures that are contained in the Action Plan for the implementation of the public administration reform.

3.3.5. Monitoring Activities

Internal audit is the activity that provides independent and objective assurance, as well as advice to the management for the purpose of improvement of the organization performance in the achievement of its own goals through systematic evaluation and assessment of the internal control system established by the management of the public funds beneficiary institution.

The Budget System Law prescribes that public funds beneficiary institutions are obliged to establish the internal audit function, while the requirements and methods of establishing of the organizational structure and of the implementation of standards are prescribed by the IA Rulebook.

The Budget System Law also prescribes that the functionally independent and decentralized internal audit is mandatory for all the public funds beneficiary institutions at all the levels of power, but it does not set any deadlines for its introduction, taking as the starting point the assumption that setting the deadline for establishment of the internal audit is the issue of the level of awareness and understanding of the benefits that the top management of a public funds beneficiary institution can have from its establishment.

The IA Rulebook prescribes that a public funds beneficiary institution may establish the internal audit function by organizing a separate functionally independent organizational unit, which is mandatory for all the ministries and public funds beneficiary institutions that have over 250 employees; by organizing a joint internal audit unit at the proposal of two or more public funds beneficiary institutions; by conducting internal audit by the internal audit unit of another public funds beneficiary institution, based on an agreement; and under exceptional circumstances, if it is not possible to establish the internal audit unit, then the internal audit function may also be performed by an internal auditor who is employed in that public funds beneficiary institution.

The internal audit affairs in indirect budget beneficiaries, which have not established the internal audit function in any of the above described ways, are administered by the competent internal audit unit of the competent direct budget beneficiary, in compliance with its work plan.

The separate functionally independent organizational internal audit unit has also been established in the autonomous provinces, the City of Belgrade and other cities, and it has the authority to administer internal audit affairs in the given body within its powers and in compliance with its work plan.

Annual reports on the conducted audits and activities of internal audit that have been submitted to the CHU provide information on specific deficiencies in internal control in public funds beneficiary institutions that need to be resolved. In addition to the deficiencies related to the internal control systems, public procurements and accounting and reporting are two additional critical areas that in terms of practical application of regulations and public funds of beneficiary institutions need to be resolved, and the leading sectoral institutions at the national level that coordinate activities in these areas should resolve them in terms of detailed analysis and elimination of all such deficiencies¹¹.

¹¹ Special measures were defined within the pillars 3 and 5 of the Public Finance Reform Programme that resolve systemic problems that require improvement of public procurements, accounting, monitoring and reporting

Certain public funds beneficiary institutions have not yet established the internal audit function. The main reasons include insufficient number of candidates for internal auditors with prescribed qualifications; low salaries; salary classes that are inadequate to the workload and the complexity of the job; insufficient funds and the competitiveness of the private sector. Additionally, annual reports specify the lack of more intensive cooperation between internal auditors and their executives, which is actually the precondition for effective internal audit.

Functional independence of internal auditors in public funds beneficiary institutions is directly proportional to the overall general understanding of the management of the public funds beneficiary institution that is related to the roles and benefits from the internal control, and because executives of public funds beneficiary institutions tend to better understand the role of internal auditors in providing independent and objective opinions and advice on the quality and functioning of the internal control system. In this way, a higher degree of functional independence of the internal audit function will be ensured in such institutions, which will contribute to a higher quality of reports of internal auditors. Resolution of the above issues requires constant support that the CHU should provide to public funds beneficiary institutions in their efforts to raise awareness about internal controls, as well as their understanding, and continuous proactive approach of internal auditors in education and raising of awareness of executives about their role and added value that they provide to their overall managerial efforts.

By the end of 2016, 330 licensed internal auditors in the public sector were certified, in compliance with the Certification Rulebook. The Certification Rulebook does not stipulate recognition of the acquired qualifications in professional organizations of internal auditors that are recognized at the national and international level.

The initial step has been taken in terms of the analysis of professional accounting and audit organizations, the certification programmes of which meet the requirements of the programme of training provided by the CHU for the potential recognition of certificates and extension of the circle of potential lecturers who will be engaged in future to carry out the activities of the training provided by the CHU.

The public funds beneficiary institutions that utilize the pre-accession funds of the European Union do not have the necessary number of auditors, or auditors who are well versed in the requirements of the European Union related to the management of the pre-accession funds. Continuous and coordinated efforts of the CHU and the Audit Authority Office, auditing the system of management of the European Union funds, are made in the preparation and provision of training courses for internal auditors in public funds beneficiary institutions, which are the beneficiaries of the assistance financed by the European Union, in order to raise their awareness about the management of the European Union funds and to enhance their technical capacities to conduct audits of the established structures for the management of the European Union funds within their institutions in compliance with the requirements established in the Decree on the Management of EU Pre-Accession Assistance Programmes Under Component I of the Instrument for Pre-Accession (IPA) – Transition Assistance and Institution Building for the Period of 2007-2013 and the Decree on the Management of the EU Pre-Accession Assistance Programmes Under the Pre-accession Assistance Instrument (IPA II) for the Period of 2014-2020.

The basic goal of the quality control is to evaluate the quality of the established internal audit functions in public funds beneficiary institutions aimed to improve the existing practices in compliance with the International Standards for the Professional Practice of Internal Auditing. The external quality evaluation is focused on the evaluation of the self-evaluation questionnaires of internal auditors through previous verification of documents, as well as through direct visits in order to establish not only compliance with laws, definitions of internal audit, standards that are applied and the Code of Ethics, but also to assess the efficiency and effectiveness of internal auditors and to identify potentials for improvement.

4 STRATEGIC GOALS

Financial management and control and internal audit represent the basis for internal control. Conducting the activities envisaged in the PIFC Strategy is directly dependent upon the progress made in specific areas, which are included in the Public Administration Reform Strategy and it will predominantly depend on a proactive approach by public fund beneficiary institutions which, in accordance with the law, should implement internal control standards and provide the necessary capacities for functioning of the internal control system.

Financial management and control includes all aspects of management of organizations in the public sector, including:

1. Strategic planning linking organizational objectives to an overall vision of the Government.
2. Operational planning linking operational objectives to demands for resources (budget, staffing and other funds).
3. Monitoring and reporting on the achieved objectives in relation to the resources used.
4. Risk identification and risk management aimed at achieving the operational objectives.
5. Development of quality evaluation model for financial management and control which includes operational risk solutions, risks of fraud or loss of financial and physical assets and loss of information of an organization.
6. Communication of accurate, relevant and timely information in relation to financial and operational performance inside and outside the organization.

Internal audit is an activity that provides independent, objective assurance and advisory activity whose purpose is to contribute to the improvement of an organisation's operation; assist the organization in achieving its objectives by assessing and evaluating, systematically and with great discipline, the risk management, controls and governance of an organization.

A general objective of the PIFC Strategy is to improve the public administration in the Republic of Serbia by strengthening accountability in the public sector.

The PIFC Strategy comprises objectives and activities which will contribute to further development, advancement and implementation of the entire PIFC process. Timeframes and accountability for achieving the objectives described herein below are included in the Action Plan, which forms an integral part of the PIFC Strategy.

The strategic goals, which comprise the principles of the COSO framework, as defined in the PIFC Strategy are focused on further development of internal financial control:

1. Further development of the role of the Ministry of Finance - the CHU in the area of coordination, monitoring, education and informing of executives and staff engaged in the PIFC process.
2. Raising awareness on financial management and control as an integral part of the management process with an emphasis on managerial accountability, risk management and quality assessment.
3. Further development of internal audit in terms of professionalism and scope of the work, more efficient use of available resources and development of the quality assessment system.

4.1. OBJECTIVES OF THE CHU

In the forthcoming period, the CHU will focus on better harmonization of the internal control system across the entire public sector, including further institutionalisation of crucial (essential) functions of the CHU, through specific objectives.

Based on the strategic goals, the specific objectives of the CHU are stipulated as:

4.1.1. Strengthening the Coordination of Financial Management and Control and Internal Audit Activities by the CHU

In order to improve the system of internal control, it is necessary to strengthen the CHU coordination role. This calls for strengthening of cooperation with:

a) Treasury Administration and Departments of the Ministry of Finance

The CHU will cooperate closely with the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects, Department for Managing EU funds, Department for the Fiscal System and Department for Control of Public Funds, with the aim of coordinating an optimal approach to financial management and control and internal audit.

b) Public fund beneficiary institutions

The CHU shall establish and make use of a network or networks of executives, executives/coordinators responsible for financial management and control and internal auditors in public fund beneficiary institutions. The support to the network may be provided through a more extensive use of Internet and Intranet, as well as by making use of any of the communication channels.

c) State Audit Institution

The cooperation between internal and external audits is primarily the task of the State Audit Institution and internal audit units of public fund beneficiary institutions. In view of the fact that in the forthcoming period internal auditors will perform more complex audits, including performance audits, an exchange of experiences between the State Audit Institution and internal auditors will be required in the area of conducting such audits. The CHU shall assist in coordinating this cooperation. The CHU and the State Audit Institution will cooperate through the existing working groups.

d) Human Resources Management Service

It is necessary to establish cooperation between the CHU in the Ministry of Finance, and the Human Resources Management Service in order to examine a possibility of relocating the trainings, so that the databases on conducted basic and professional trainings of civil servants could be shared.

Measures (activities envisaged in the Action Plan):

- Setting-up a working group within the Ministry of Finance to deal with the challenges of financial management and control and internal audit, headed by the CHU with participation of the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects, Department for Managing EU Funds, Department for the Fiscal System and Department for Control of Public funds.
- Organizing meetings with executives of public fund beneficiary institutions, executives/coordinators for financial management and control and internal auditors,

- Coordination of activities with the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects and the Department of the National Fund and Department for Control of Public Funds on developing a methodology for financial management and control.
- Organizing joint seminars with the Department for Contracting and Financing of EU Funded Projects and the Department for Management of EU Funds aimed at exchange of experiences in the area of developing financial management and control and internal audit for utilization of the EU pre-accession financing.
- Cooperation with the State Audit Institution through the working group and coordination of the experience exchange.
- Coordination of activities with the Government's Human Resources Management Service in preparation of the curriculum necessary for potential reallocation of trainings and use of databases.

4.1.2. Continuous Development of Methodological Manuals and Guidelines for Internal Audit and Financial Management and Control

The CHU has to stay on top of the developments related to adopted international practice in the area of internal audit and financial management and control as promoted by the INTOSAI, IIA and Services within the European Commission. The CHU must be acquainted with the latest guidelines and advice rendered by such organizations on the issues of internal control and it should regularly update own manuals in compliance with the adopted practice. The CHU should organize meetings with public fund beneficiary institutions aimed at implementing the adopted international practice in the public sector of the Republic of Serbia.

Measures (activities envisaged in the Action Plan):

- Via its Website, the CHU shall provide information on updating and improving the manuals and instructions on financial management and control and internal audit to all interested parties.
- The CHU shall organize discussions with internal auditors, executives / coordinators for financial management and control, the Treasury Administration and State Audit Institution on the proposed amendments of the practice applied in the Republic of Serbia, and the outcomes of such discussions shall be taken into consideration for updating of the manuals.

4.1.3. Coordination of Continuing Professional Development

Further development of the internal financial control system shall require, in addition to organizing basic trainings, a continuing professional development of persons responsible for financial management and control and internal audit. Any future activities on adequate monitoring and reporting on the status of the system of financial management and control and internal audit is limited by the time dedicated to the training itself and the certification. Therefore, the CHU shall open up the possibility of organizing professional training and continuing professional development in the area of financial management and control and internal audit in association with professional and academic communities, as well as with international organizations. In medium-term, the CHU shall also focus on the role of a coordinator in the framework of training: this would include a continuous development of the training programmes and quality control of the training implementation. The Ministry of Finance - the CHU shall continue its cooperation with professional associations and shall take part in strengthening their activities.

Measures (activities envisaged in the Action Plan):

- In association with professional and academic communities, as well as with international organizations, the CHU shall analyze the possibilities for cooperation in organizing and improving basic trainings in the area of financial management and control and internal audit.
- Further development of professional knowledge of the current CHU staff through seminars and courses in specific areas of financial management and control and internal audit.

4.1.4. Development and Implementation of IT Support to the PIFC

The CHU shall develop and keep improving the information technology system rendering support to internal financial control through restructuring and redesign of the existing Website, which shall have a multiple role. As an up-to-date communication channel it shall open up the possibility of awareness raising, not only in public fund beneficiary institutions but among the general public, too. The CHU shall update its Website at regular intervals and keep informing the public at all times about its activities, plans, in addition to the latest trends in the area of internal financial control. Upgrading of the Website, only for the public fund beneficiary institutions, shall be conducted through two channels: *e-learning* platform which will primarily support the learning activities and the PIFC software which will enable the public fund beneficiary institutions to submit their annual reports in an electronic format.

Measures (activities envisaged in the Action Plan):

- Further development and redesign of the existing CHU Website, which shall be linked to the banner on the Ministry of Finance Website for more efficient promotion of the PIFC.
- Implementation of the e-learning platform which will allow a better exchange of knowledge on the topic of financial management and control and internal audit and which will include, in addition to training materials, also the knowledge assessment tests, as well as system models of financial management and control and internal audit to facilitate the implementation in public fund beneficiary institutions.
- Setting-up of the PIFC software which will enable public fund beneficiary institutions access to and submission of annual reports to the CHU in electronic format.
- The CHU shall use the software as a tool for gathering data and information. The compiled database shall enable a more efficient analysis and higher quality of consolidated annual reports.

4.1.5. Cooperation with Internal Auditors and Executives in Charge of Financial Management and Control

Being a part of a network of internal auditors and exchange of experiences and ideas have as its objective an exchange and upgrading of professional knowledge. The breadth of knowledge and experience of a group of people always surpasses the knowledge and experience of any one individual. The second benefit of networking is awareness raising. The CHU shall make use of formal networks of internal auditors and executives/coordinators for financial management and control in the public sector for the exchange of knowledge and experiences and discussions on the issues of common interest regarding the internal control. The CHU communication processes should be supplemented and followed by better networking and developing of links between the CHU and responsible executives in the public fund beneficiary institutions (through use of the Websites, the CHU software, journals, meetings, visits). The CHU should act as a hub for information exchange among the persons who are engaged in the implementation.

Measures (activities envisaged in the Action Plan):

- Development of the information exchange via the CHU Website, booklets, leaflets and selected media channels.

4.1.6. Regional and International Cooperation

International organizations, such as SIGMA, PEMPAL and the European Commission possess knowledge on the adopted models for the implementation of internal financial control in the countries which are getting ready for the accession to the EU. The countries which have already gone through the pre-accession processes over the past few years could demonstrate their experience and offer information on the best ways to fulfil the requirements stipulated in Chapter 32. The CHU will cooperate with these organizations and use their experiences in fulfilling the obligations regarding the internal financial control.

Measures (activities envisaged in the Action Plan):

- Participation of the CHU representatives in international gatherings organized by SIGMA, PEMPAL, the European Commission and other international and regional institutions.

4.1.7. Monitoring and Quality Control

The CHU shall oversee the quality of established systems of internal control in public fund beneficiary institutions (financial management and control and internal audit). In developing a model for the evaluation of internal quality controls the CHU shall cooperate with the departments of the Ministry of Finance and international organizations, on setting the indicators for assessment of the level of implementation of the internal control standards and the method of evaluation of compliance, including the indicators for the assessment of the level of implementation and efficiency of the internal control systems in public fund beneficiary institutions. The public fund beneficiary institutions will receive explanations on the advantages and benefits of implementing a functional system of internal control, as well as on all challenges which will have to be overcome in the process. The CHU will also cooperate with executives/coordinators for financial management and control, internal auditors and auditing boards, as advisory bodies for the issues of internal control in public fund beneficiary institutions, for exchange of information and experiences on the development of the internal control system.

Management of the CHU must demonstrate developed managerial skills and communication skills, motivation skills, authority, technical knowledge of internal controls and internal audit, and it will also provide access to best practices and follow-up of professional literature. A continuing professional development is a must for all the CHU employees, so that the role of the CHU could successfully adapt and grow from a developing role to the roles of monitoring and evaluation, rendering support to the implementation of internal financial control, reporting and data and information exchange.

Measures (activities envisaged in the Action Plan):

- Improve the contents and quality of the CHU consolidated annual reports on internal financial control in the public sector which are submitted to the Government,
- Improve the system of monitoring in the areas in which weaknesses have been identified in the consolidated annual report,
- Establish a plan for periodical evaluation of the internal control in public fund beneficiary institutions,

- Organizing workshops on development of internal control in public fund beneficiary institutions for the persons in charge of financial management and control and internal audit,
- Further development of the CHU employees' skills through a continuing professional development.

4.1.8. Coordination with other Ministries and Other Key Stakeholders

The internal financial control system is an essential and integral part of the public administration reform, since the internal control system is a horizontal issue and it is implemented in all public finance systems. The PIFC Strategy will be aligned with the Public Administration Reform Strategy and it represents a basis for the Public Finance Management Reform Programme.

In the Public Administration Reform Strategy in the Republic of Serbia¹², in Chapter III C.2. Enhancement of Management and Control of Public Revenues and Internal Audit it is stated that: *"The Central Harmonization Unit is the central organization in the Republic of Serbia, responsible for the preparation and promotion of methodologies of financial management and control and internal audit, in line with internationally adopted standards and best practices"*.

The PIFC is a part of a wider context of the public administration reform, the basis and a separate part of the public financial management reform. The Ministry of Finance and the Ministry of Public Administration and Local Self-government will continue to work jointly on specific activities to ensure that the internal financial control, Public Financing Management Reform and the Public Administration Reform are fully coordinated and harmonized.

In the Public Procurement Development Strategy in the Republic of Serbia for the Period of 2014-2018¹³, in *Chapter 4.2: Improvement of measures to prevent irregularities and fight against corruption*, the following is envisaged: training of executives on managerial accountability and their role in implementation of internal acts and procedures to be conducted by the Department for internal control and internal audit (within the Ministry of Finance). The Central Harmonization Unit, in the scope of its regular activities and in cooperation with the Public Procurement Office shall conduct training of executives on managerial accountability and their role in the enforcement of internal acts and procedures.

According to the Government's Action Plan for the implementation of the National Anti-corruption Strategy in the Republic of Serbia for the Period 2013-2018, in *Chapter 3.2.3: Public internal financial control, external audit and protection of EU financial interests* the following objective was set: 3.2.3.1 *"Establish and develop a system for public internal financial control in the public sector at all levels of the government"*. The Central Harmonization Unit will undertake the necessary activities to achieve this objective.

Measures (activities envisaged in the Action Plan):

- Establish a sub-group within the Public Administration Reform Council which will consist of the CHU with representatives of the Ministry of Public Administration and Local Self-government, the Ministry of Economy, the Ministry of Justice and the Public Procurement Office which will engage in coordination of affairs in the area of financial management and control and internal audit envisaged by the present strategy and shall inform the Public Administration Reform Council accordingly, through a mechanism which has already been defined within the Action Plan for the implementation of the Public Administration Reform Strategy in the part which refers to financial management and control and internal audit.

¹² Public Administration Reform Strategy in the Republic of Serbia (Official Gazette of the RS, Nos. 9/14, 42/14)

¹³ Public Procurement Development Strategy in the Republic of Serbia for the Period of 2014-2018 (Official Gazette of the RS, No. 122/14)

4.1.9. Promoting the Significance of Internal Financial Control in the Public Sector

Executives of the public fund beneficiary institutions should understand the advantages of internal control and demonstrate their readiness to use the internal control as the vehicle which could assist them in meeting the organization's objectives and in developing work processes and procedures. In order to raise awareness of the significance of the PIFC reform, it is necessary to promote the PIFC Strategy by organizing high-level conferences.

Measures (activities envisaged in the Action Plan):

- Organization of high-level events aimed at promoting the PIFC Strategy,
- Promotion of the significance of the PIFC reform using the relevant media channels.

4.2 OBJECTIVES OF FINANCIAL MANAGEMENT AND CONTROL

Based on the strategic goals, specific objectives for the financial management and control system have been stipulated:

4.2.1. Rendering Support to all Executives of Public Fund Beneficiary Institutions to Achieve a Genuine Understanding of the Significance of Financial Management and Control Activities as an Integral Part of Strategic and Operational Processes with an Emphasis on Managerial Accountability

Financial management and control activities form an integral part of managerial accountability and are implemented at all levels of the organization. Financial management and control is the responsibility of the top-level executives (minister, ministry secretary, assistant ministers, director general, director), as well as executives of groups, sections, departments and other organizational units within the public fund beneficiary institutions. For this reason, in order to include financial management and control in all activities of the public fund beneficiary institutions, the top-level executives and executives of internal organizational units must act in compliance with the definition of managerial accountability. If accountability for the enforcement of financial management and control rests solely on the top management, this does not suffice to produce its crucial and full implementation. Consequently, it is necessary to raise awareness among all leading stakeholders in public sector activities, including also all executives of internal organizational units, on the role and responsibilities for the enforcement of financial management and control.

Financial management and control is the vehicle which ensures that affairs within the scope of responsibilities of executives at all levels in public fund beneficiary institutions are conducted in a systematic, prescribed and transparent manner, rendering assurances to the executive of the public fund beneficiary institution that the affairs and transactions in his/her organization are conducted in compliance with the principles of good governance.

Coordination of the implementation and development of the principle of managerial accountability of executives in all public fund beneficiary institutions will be rendered by the CHU

through an analysis of shortcomings in the internal control system in the public fund beneficiary institutions and through development of guidelines and instructions for its elimination.

Measures (activities envisaged in the Action Plan):

- Establish a level of understanding of financial management and control in the public fund beneficiary institutions using improved the CHU questionnaires.
- Development of guidelines on managerial accountability of executives which explain the roles of individual participants in the financial management and control (executives in public fund beneficiary institutions, executives of groups, sections, departments, etc.).
- Development of a model for practical application of the financial management and control, which will be accessible to the public fund beneficiary institutions to download from the e-learning platform at the CHU Website.
- Organizing workshops for senior executives on the role of financial management and control, based on results of the survey.
- Organizing seminars on financial management and control for executives at the State and local-government levels (state secretaries, assistant ministers, heads of administration/city administration and directors).
- Conduct an analysis of the implementation of internal control standards in a specified number of public fund beneficiary institutions in relation to the adopted policy documents on the financial management and control.
- Amendments of the FMC Rulebook and the FMC Manual, aimed at bringing the term managerial accountability in line with the principles of good governance.
- Updating and redesign of all training materials for financial management and control.

4.2.2. Strategic Planning Linking Organizational Goals to Overall Vision of the Government

Strategic planning which links organizational goals to overall vision of the Government will be improved by amendments of the existing legal framework which will regulate the system of planning documents. This change shall allow for adoption of bylaws required to achieve this goal.

Measures (activities envisaged in the Action Plan):

- Adoption of a regulation stipulating a methodology for management of public policies, analysis of effects of public policies and regulations and contents of individual public policy documents.
- Adoption of a regulation stipulating a methodology for development of medium-term (strategic) plans.

4.2.3. Operational Planning Linking Operational Goals to Demands for Resources (Budget, Staffing and other Funds)

The operational planning linking the operational goals to demands for resources (budget, staffing and other funds) will be achieved by the adoption and implementation of the Action Plan for Optimization of Public Administration, based on the recommendations of horizontal functional analysis conducted by the World Bank. Amendments of the existing regulations governing the principles of

internal organization and systematization of job positions in the ministries, the Government's special organizations and services shall provide establishing, i.e. designating an internal organization unit which will be engaged in the issues of strategic planning and management, including precisely defined job position descriptions for the employees in this unit.

One of the tasks that fall within the competences of these units is performing the function of rendering professional support and coordination in the preparation and implementation of strategic and operational plans in compliance with defined goals of the organization and justified demands for resources (budget, staffing and other funds).

Measures (activities envisaged in the Action Plan):

- Amendments of the existing regulations governing the principles of public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of implementing the function of rendering professional support and coordination in the preparation and implementation of strategic and operational plans in compliance with defined objectives of the organization and justified demands for resources.

4.2.4. Monitoring and Reporting on Achieved Goals in Relation to the Resources Used

Monitoring and reporting on the achieved goals with regard to the resources used will be realized by adoption and implementation of the Action Plan for Optimization of Public Administration, based on the recommendations of horizontal functional analysis conducted by the World Bank. Amendments of the existing regulations governing the principles of internal organization and systematization of job positions in the ministries, the Government's special organizations and services shall provide establishing, i.e. designating an internal organization unit which will be engaged in the issues of strategic planning and control, including precisely defined job position descriptions for the employees in this unit.

One of the tasks that fall within the competences of these units is monitoring and reporting on the level the set goals have been achieved with regard to the resources used.

Measures (activities envisaged in the Action Plan):

- Amendments of the existing regulations governing the principles of the public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of monitoring and reporting on the level the set goals have been achieved with regard to the resources used.

4.2.5. Development of Risk Management Process in Public Fund Beneficiary Institutions

It is necessary to continue a systematic development of the risk management process in public fund beneficiary institutions through continuous risk identification, assessment of probability of its occurrence and possible impacts, documenting the risk in the risk registry, designating a person for risk monitoring and improving the system of reporting on risks.

For the purpose of full implementation of the internal control system it is necessary to improve the strategic planning procedure (more precise definition and monitoring of strategic goals) to which the risk management procedure is connected.

Measures (activities envisaged in the Action Plan):

- The CHU should update the existing guidelines for the implementation of risk management process in public fund beneficiary institutions.
- Organization of the CHU seminars and workshops on the topic of risk management for all public fund beneficiary institutions.
- Continuous documenting of risks in risk registries and designating a person in charge of risk monitoring in public fund beneficiary institutions.
- The CHU should make possible downloading of the risk management model via the *e-learning* platform, to facilitate its application by public fund beneficiary institutions.

4.2.6. Development of a Model for Evaluating the Quality of Financial Management and Control

A well-founded financial management and control system will ensure that the public funds are used in a legal manner, in accordance with the principles of cost-efficiency, efficiency and effectiveness. The Budget System Law stipulates the principles and rules in compliance with which the public fund beneficiary institutions must manage the resources allocated to them. The implementation of the provisions of the Budget System Law in practice calls for an adequate financial management and control system. In order to ensure the adequacy of the financial management and control system it is necessary to monitor the system continuously. Therefore, it is of utmost importance to develop a model for evaluating the quality of financial management and control which will provide feedback information on whether the financial management and control system in actual fact ensures an efficient use of public funds and achieving of the objectives set out by the Government. The quality evaluation model will also be used to check whether the financial management and control system ensures that:

- Allocated public funds are used in compliance with the approved financial plan, that no commitments which exceed the approved funds are embarked on and that the funds are not reallocated without an appropriate approval.
- Irregularities that may possibly occur are adequately recorded and that all necessary actions are undertaken to rectify such irregularities.

In order to support such quality evaluation model, certain amendments in the system of annual reporting on internal controls are needed. It is necessary to develop plans for gradual introduction of an Annual Management Declaration on internal controls for various categories of public fund beneficiary institutions that will be signed by the executive officer, certifying that the system of internal controls has been checked and that it meets the standards prescribed by the minister in charge of financial affairs. Public fund beneficiary institutions will submit this declaration to the minister of finance through the CHU.

Introduction of management of irregularities is of special importance for further development of financial management and control. An irregularity means any infringement of a provision in prescribed rules and contracts, which is a consequence of an action or failure on the part of a person employed by public fund beneficiary institutions, contractors, end users and end recipients, and which has or might have resulted in unjustified expenses. A civil servant, an employee or a third party shall report discrepancies, inconsistencies or infringements of regulations which constitute an irregularity or raise a reasonable doubt that a fraud has been committed, irrespective of the size and significance of the irregularity or fraud and irrespective of the fact whether these have been committed intentionally or involuntarily.

Measures (activities envisaged in the Action Plan):

- Introduction of the Annual Management Declaration on internal controls by the executive officer of a public fund beneficiary institution.
- A plan of introducing the Declaration on internal control which will be signed by

executives of public fund beneficiary institutions and submitted to the minister of finance through the CHU.

- Introducing the function of management of irregularities in the financial management and control framework.

4.2.7. Communication of Accurate, Relevant and Timely Information in Relation to Financial and Operational Performance Inside and Outside the Organization

Communication of accurate, relevant and timely information regarding financial and operational performance inside and outside the organization will be achieved by adoption and implementation of the Action Plan for Optimization of Public Administration, based on the recommendations of horizontal functional analysis conducted by the World Bank. Amendments of the existing regulations governing the principles of internal organization and systematization of job positions in ministries, the Government's special organizations and services will ensure establishing, i.e. designating an internal organizational unit which will be engaged in the issues of strategic planning and management, including precisely defined job position descriptions for the employees in this unit.

One of the tasks which will be within the competences of these units is the function of internal and external communications through development of accurate, relevant and topical information which refer to financial and operational effects for publishing inside and outside the organization.

Measures (activities envisaged in the Action Plan):

- Amendments of the existing regulation governing the principles of public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of internal and external communication through preparation of accurate, relevant and timely information in relation to financial and operational performance for publishing inside and outside the organization.

4.3. OBJECTIVES OF THE INTERNAL AUDIT

Based on the strategic goals, specific objectives for the internal audit system have been stipulated:

4.3.1. Development of Professional Skills of Internal Auditors -Number and Competences of IAs

Having in mind the demands posed to the internal audit, its role in the development of financial management and control in public fund beneficiary institutions and its function in the system of utilizing the pre-accession funds, it is very important to provide capacities for the internal audit. It is necessary to provide a sufficient number of licensed internal auditors in the public sector, including the relevant competences. Development of a systemic approach to cooperation between the internal audit units and the IPA beneficiary institutions and the Audit Authority Office for EU funds is crucial for raising the awareness on management of the European Union's funds and for strengthening the technical capacities for conducting audits in the established structures for management of the European Union's funds within their own institutions.

The areas, forms and rules of continuing professional development of internal auditors will

be stipulated in a bylaw in compliance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The CHU remains under the obligation to monitor the process of continuing professional development of internal auditors.

In order to improve the competences of licensed internal auditors in the public sector it is necessary to organize additional training through corresponding training modules, workshops and seminars.

Measures (activities envisaged in the Action Plan):

- Engagement of new internal auditors within the existing resources in public fund beneficiary institutions, up to the required number.
- Organizing meetings aimed at exchange of experiences among internal auditors from the IPA beneficiary institutions, the Audit Authority Office of the EU funds and the CHU.
- Prescribe the continuing professional development of internal auditors in a bylaw.
- Development of training materials required for the implementation of updated internal audit manual.
- Updating and redesign of the training materials for internal audit.

4.3.2.Promotion of the Status of Internal Audit and Cooperation with Management Structures

The Budget System Law and the IR Rulebook offer some basic guarantees of independence and autonomy of internal auditors; however, the internal audit is not, to a sufficient level, accepted as a necessary vehicle for successful management, but rather as an additional burden on the organization.

It is necessary to encourage and develop the cooperation between internal auditors and management structures. Executives should understand the advantages of internal audit and demonstrate their readiness to use the internal audit as the vehicle that may assist them to improve the work processes and procedures. The cooperation between the internal audit and management structures should contribute to improved strategic and annual plans of internal audits and highlight the management priorities. In addition, material status of internal auditors is inadequate, and it should be improved and brought into line with the complexity and the scope of the work they perform.

Measures (activities envisaged in the Action Plan):

- Presentations given by the CHU for high-level executives in public fund beneficiary institutions on the topic of the role of management structures and functions of internal audit, in cooperation with internal audit executives.
- Organizing a high-level event which is also highly visible in order to highlight the significance of conducting internal financial control in the public sector.

4.3.3.Optimization of the Use of Audit Resources

In the preceding period, the internal audit activities were focused on a review of an organization's adherence to regulations (compliance audits). The compliance audits are important and this practice should continue, but it is necessary to conduct more complex audits, such as audits focused on securing management support for cost-effective, effective and efficient use of public

funds. Performance audits and priority project audits should be implemented in selected ministries, which do not preclude a possibility of implementing such audits in other public fund beneficiary institutions, either, since some of the work processes are identical in a number of public fund beneficiary institutions.

In order to optimize the use of limited audit resources, a possibility of introducing "horizontal" audits shall be considered, according to which several internal auditors of different public fund beneficiary institutions would be engaged in auditing a specific process which is identical for several public fund beneficiary institutions - common to all beneficiary institutions (e.g. use of donations).

Measures (activities envisaged in the Action Plan):

- Organizing workshops, pilot audits and exchange of experiences after completed audits, on performance audits and project audits.
- Developing a systemic approach to horizontal audits based on analyses of complexity of the scope of audit and available resources.

4.3.4. Development of a Model for Evaluating Quality of Work of Internal Auditors

Internal audit professional standards require conducting quality audits of all internal audit functions at least once in three to five years. The aim of this procedure is to:

- Evaluate efficiency and effectiveness of internal audit activities.
- Identify the possibilities and offer advice for improvement of internal audit activities.

The work on quality audit of an internal audit may be done internally (when performed by the internal audit unit itself) or externally (when performed by the CHU or other qualified assessor). The main objective of the quality control is to evaluate the quality of established internal audit functions in public fund beneficiary institutions with the aim of improving the current practice in compliance with the International Standards for the Professional Practice of Internal Auditing. External quality evaluation is focused on evaluation of the questionnaire for self-evaluation of internal auditors through a preliminary checking of the documents beforehand, as well as through direct visits not only to establish compliance with the laws, internal audit definitions, standards applied and the Code of Ethics, but also to evaluate the efficiency and effectiveness of internal auditors and to identify potential options for improvements.

In the forthcoming period, it will be necessary to develop a model for quality evaluation of internal audit performed in public fund beneficiary institutions, according to the *peer review* method, which will be coordinated by the CHU upon adoption of the regulation on external quality evaluation of internal audit. Executives of the internal audit units will develop own programmes for quality assurance of internal audit, based on a general model prepared by the CHU.

Measures (activities envisaged in the Action Plan):

- Stipulate by a regulation the external evaluation of the quality of work of internal audits performed in public fund beneficiary institutions.
- Development of a model for internal quality assessment of the internal audit to be used by internal audit units, which will be prepared by the CHU, with guidelines for quality assurance of internal audit for executives of internal audit units.

4.3.5. Establishing Minimum Criteria for Organizing a Joint Internal Audit of Two or More Public Fund Beneficiary Institutions from a Designated Territory, for the Same-Type or Similar Activities, on a Smaller Scale

The Budget System Law prescribes the obligation of public fund beneficiary institutions to establish the internal audit function. Although this legal obligation is further elaborated in the IR Rulebook, the minimum criteria have not been defined for small-size public fund beneficiary institutions for organizing joint internal audits of two or more public fund beneficiary institutions, from a designated territory, for the same type or similar activities, on a smaller scale.

It is necessary to establish the guidelines for organizing joint internal audits of two or more public fund beneficiary institutions.

Measures (activities envisaged in the Action Plan):

- Development of guidelines for establishing functions of the internal audit in small-size public fund beneficiary institutions for common internal audit units.

5 MONITORING OF THE STRATEGY IMPLEMENTATION

Monitoring of the PIFC Strategy implementation and achieving of objectives, measures and activities contained in the Action Plan, which forms an integral part of the PIFC Strategy shall be performed by the Central Harmonization Unit in the Ministry of Finance.

The CHU shall establish a working group for internal financial control which will monitor the implementation of the Action Plan and report to the Government on annual basis on the conducted activities, achieved results and possible difficulties in the implementation of the objectives and measures and submit proposals for the elimination of such difficulties. The working group shall meet at least twice a year and propose supplements to the Action Plan, as required. The CHU shall act as the secretariat for the working group and shall prepare reports and discussion papers which shall be used at the working group meetings.

Measures (activities envisaged in the Action Plan):

- Setting up a working group for internal financial control in the public sector composed of representatives of the public fund beneficiary institutions.
- Monitoring of the PIFC Strategy implementation and achieving of the objectives, measures and activities included in the Action Plan, through meetings of the Working Group for internal financial control.
- Annual reporting to the Government on the conducted activities, results achieved and possible difficulties in implementing the objectives and measures.

According to the Action Plan, which forms an integral part of the PIFC Strategy, the implementation of the planned activities is due in the period from 2017 until 2018. Updating of the Action Plan for the implementation of the outstanding activities will be performed in the last quarter of 2018. Measures and activities that have not been included in the Action Plan will be included in the updated Action Plan for the Period of 2019-2020.

6 THE ACTION PLAN FOR THE IMPLEMENTATION OF THE STRATEGY OF PUBLIC INTERNAL FINANCIAL CONTROL DEVELOPMENT IN THE REPUBLIC OF SERBIA FOR THE PERIOD OF 2017-2020

The Action Plan for the Period of 2017-2018 is attached to the present Strategy and forms an integral part hereof.

7 FINAL PROVISIONS

The present Strategy shall be published in the *Official Gazette of the Republic of Serbia*.

05 Number:

In Belgrade, May 2017

GOVERNMENT

PRESIDENT

Aleksandar Vučić

ACTION PLAN FOR THE PERIOD OF 2017-2018

IMPROVING THE ROLE OF THE MINISTRY OF FINANCE – THE CHU IN THE AREA OF COORDINATION, MONITORING, EDUCATION AND INFORMING OF EXECUTIVES AND STAFF ENGAGED IN THE PIFC PROCESS

Objectives	No.	Measure / Activity	Time frame	Indicator (BV – Baseline Value; TV – Target Value)	Leading Institution	Partner Institutions
1. STRENGTHENING THE COORDINATION OF FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT ACTIVITIES BY THE CHU ¹⁴	1.1	Setting-up a working group within the Ministry of Finance to deal with the challenges of financial management and control and internal audit, headed by the CHU with participation of the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects, Department for Managing EU Funds, Department for the Fiscal System and Department for Control of Public Funds	2 nd quarter of 2017	Working Group established BV: 0 TV: 1	Ministry of Finance / CHU	Other mentioned organizational units within the Ministry of Finance
	1.2	Coordination of activities together with the Treasury Administration, Budget Department, Department for Contracting and Financing of EU Funded Projects, Department of the National Fund and Budget Inspection on development of a methodology of financial management and control.	Continuously, starting from the 3 rd quarter of 2017	Reports / Minutes of the Meetings	Ministry of Finance / CHU	Other mentioned organizational units within the Ministry of Finance

¹⁴ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measures 11 and 14.

	1.3	Organization of joint seminars with the Department for Contracting and Financing of EU Funded Projects and the Department for Management of EU Funds aimed at exchange of experiences in the area of development of financial management and control and internal audit in utilizing the EU pre-accession funds	At least once a year	Seminars held BV: 0 TV: 2	CHU, Department for Contracting and Financing of EU Funded Projects, Department for Management of EU Funds	
	1.4	Cooperation with the State Audit Institution through the working group and coordination of the exchange of experiences	Continuously	Reports / Minutes of the Meetings	Ministry of Finance / CHU	State Audit Institution
2.	2.1	Updating and improving of the existing methodological manuals and instructions in compliance with the best international practice and its publishing on the CHU Website.	Continuously, starting from the 2 nd quarter of 2017	Documents published on the CHU Website	Ministry of Finance / CHU	
	2.2	Further development of coordination among internal auditors, executives/coordinators for financial management and control, the Treasury Administration and State Audit Institution, for the purpose of developing and harmonizing methodological manuals and instructions with national practice	At least once a year	Reports from the meetings	Ministry of Finance / CHU	Treasury Administration, State Audit Institution and PFBIs
3.	3.1	Conducting an analysis of harmonization for the purpose of improving the existing system of certification and professional development of internal auditors, involving professional organizations and the academic community in the process of preparing and conducting the trainings	1 st quarter of 2018	Harmonization analysis and Implementation Plan BV: 0 TV: 1	Ministry of Finance / CHU	Professional organizations, the academic community, international organizations
	3.2	Further development of professional knowledge of the CHU staff through monitoring of international practice in the area of financial management and control and internal audit	Continuously	At least two seminars per year	CHU	

¹⁵ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measures 11.2, 12.1, 12.1.1 and 13.1.

¹⁶ Envisaged by the Public Financial Management Reform Programme for 2016-2020; Measures 11.3, 11.5 and 13.4.

4.	DEVELOPMENT AND IMPLEMENTATION OF IT-SUPPORT FOR PIFC ¹⁷	4.1	Further development and redesign of the existing CHU Website aimed at more efficient promotion and better accessibility to the users	2 nd quarter of 2017	Redesigned CHU Website	CHU	SDC/UNDP
		4.2	Implementation of the e-learning platform which will improve exchange of knowledge in the area of financial management and control and internal audit.	4 th quarter of 2017	Training materials uploaded BV: 0 TV: 1	CHU	SDC/UNDP
		4.3	Further development of the existing software for internal financial control in the public sector, enabling access to beneficiaries and submission of annual reports to the CHU in electronic format, which will improve the quality of data based on which a consolidated annual report on internal financial control in the public sector is developed.	1 st quarter of 2018	Report on conducted test phase (submission of e-reports by PFBIs at central level) BV: 0 TV: 1	CHU	SDC/UNDP
5.	MONITORING AND QUALITY CONTROL ¹⁸	5.1	Further development of the contents and quality of the consolidated annual report on internal financial control in the public sector, which is submitted to the Government (reference to activity 4.3)	2 nd quarter of 2018	Consolidated Annual Report for 2017	CHU	TWINNING partner
		5.2	Further development of the monitoring system in the areas where weaknesses in the consolidated annual report on the status of internal financial control in the public sector have been identified.	2 nd quarter of 2019	Consolidated Annual Report for 2018	CHU	

¹⁷ Envisaged by the Public Financial Management Reform Programme for 2016-2020; Measure 11.4.

¹⁸ Ditto, footnote 17

6.	6. COORDINATION WITH OTHER MINISTRIES AND OTHER KEY INSTITUTIONS ¹⁹	6.1	Form a sub-group within the Council for Public Administration Reform which will consist of the CHU and representatives of the Ministry of Public Administration and Local Self-government, the Ministry of Economy, the Ministry of Justice and the Public Procurement Office which will deal in coordination of affairs in the area of financial management and control and internal audit envisaged by the present Strategy and inform the Council for Public Administration Reform accordingly, through a mechanism which has already been set in the scope of the action plan for the implementation of the Public Administration Reform Strategy, in the part which refers to financial management and control and internal audit.	4 th quarter of 2017	Sub-group established within the Council for Public Administration Reform BV: 0 TV: 1	CHU	Ministry of Public Administration and Local Self-government, Ministry of Economy, Ministry of Justice and Public Procurement Office
7.	7. PROMOTING THE SIGNIFICANCE OF THE INTERNAL FINANCIAL CONTROL REFORM	7.1	Organizing high-level events for the purpose of promoting the new Strategy for the development of internal financial control in the public sector.	120 days after approval of the Strategy by the Government	List of those present, report on media coverage	Ministry of Finance / CHU	EU, Executives of PFBIs
		7.2	Promoting the significance of the reform of internal financial control in the public sector using the relevant media channels.	Continuously	Media reports and promotional material	CHU	

¹⁹ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measure 11.1.

RAISING AWARENESS ON FINANCIAL MANAGEMENT AND CONTROL AS AN INTEGRAL PART OF THE MANAGEMENT PROCESS WITH EMPHASIS ON MANAGERIAL ACCOUNTABILITY, RISK MANAGEMENT AND QUALITY ASSESSMENT						
Objectives	No.	Measure / Activity	Time frame	Indicator	Leading Institution	Partner institutions
8. RENDERING SUPPORT TO ALL EXECUTIVES OF PUBLIC FUND BENEFICIARY INSTITUTIONS TO ACHIEVE A GENUINE UNDERSTANDING OF THE SIGNIFICANCE OF FINANCIAL MANAGEMENT AND CONTROL ACTIVITIES AS AN INTEGRAL PART OF STRATEGICAL AND OPERATIONAL PROCESSES WITH AN EMPHASIS ON MANAGERIAL ACCOUNTABILITY ²⁰	8.1	Further development of the contents and the CHU self-evaluation questionnaire template, in order to improve the quality of data submitted by PFBIs	1 st quarter of 2018	Improved CHU questionnaires	CHU	
	8.2	Development of guidelines on managerial accountability with explanations of the roles of individual participants in financial management and control (executives of PFBIs, executives of groups, sections, departments, etc.).	4 th quarter of 2017	Guidelines on managerial accountability in the public sector	CHU	
	8.3	Development of models for practical use in financial management and control, which will be accessible to PFBIs to download from the e-learning platform at the CHU Website.	4 th quarter of 2018	Models for practical use in financial management and control BV: 0 TV: 1	CHU	TWINNING partner
	8.4	Organizing workshops on the role of financial management and control for senior executives	Continuously, starting from the 3 rd quarter of 2017	At least two workshops per year BV: 0 TV: 4	CHU	PFBIs, TWINNING partner
	8.5	Conducting an analysis of implementation of the standards of internal control in a specified number of PFBIs with reference to adopted policy documents on financial management and control	4 th quarter of 2018	Analysis performed BV: No TV: Yes	CHU	TWINNING partner
	8.6	Amendments of the Rulebook and the Manual for financial management and control, aimed at bringing the term <i>managerial accountability</i> in line with the good governance principles and introduction of the function of managing irregularities	2 nd quarter of 2018	The Rulebook and the Manual are amended	CHU	

²⁰ Envisaged by the Public Financial Management Reform Programme for 2016-2020; Measures 11.2, 11.4 and 12.1.

	8.7	Updating and redesign of all training materials for financial management and control, in compliance with the amended regulations.	3 rd quarter of 2018	Training material updated and redesigned	CHU	
9.	9.1	Adoption of the regulation stipulating the methodology for management of public policies, analysis of the effects of public policies and regulations and contents of individual documents on public policies.	4 th quarter of 2017	Regulation adopted BV: No TV: Yes	Ministry of Public Administration and Local Self-government	Republic Secretariat for Public Policies
	9.2	Adoption of the regulation stipulating the methodology for development of medium-term (strategic) plans.	4 th quarter of 2017	Regulation adopted BV: No TV: Yes	Ministry of Public Administration and Local Self-government	Republic Secretariat for Public Policies
10.	10.1	Amendments of the existing regulations governing the principles of public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of implementing the function of rendering professional support and coordination in the preparation and implementation of strategic and operational plans in compliance with defined objectives of the organization and justified demands for resources.	4 th quarter of 2017	Regulation adopted BV: No TV: Yes	Ministry of Public Administration and Local Self-government	
11.	11.1	Amendments of the existing regulations governing the principles of the public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of monitoring and reporting on the level the set goals have been achieved with regard to the resources used.	4 th quarter of 2017	Regulation adopted BV: No TV: Yes	Ministry of Public Administration and Local Self-government	

²¹ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measure 12.1. Will depend to a large extent on the implementation of the Action Plan of the Public Administration Reform Strategy, measure 1.3. Further development of the Government's public policies management system (planning, analysis, creation, adoption, monitoring and evaluation and coordination) established by the end of 2016, legal and institutional framework for integrated strategic management and adoption of medium-term plans of the PABs adopted to the Government's strategic priorities and programme budgeting.

²² Ditto, footnote 21

²³ Ditto, footnote 21

12.	DEVELOPMENT OF THE RISK MANAGEMENT PROCESS IN PFBIs ²⁴	12.1	Updating of the existing guidelines for the implementation of risk management process in PFBIs.	2 nd quarter of 2018	Existing guidelines updated BV: No TV: Yes	CHU	TWINNING partner
		12.2	Downloading of the risk management model from the e-learning platform, to facilitate its practical use by PFBIs.	3 rd quarter of 2018	Risk management model BV: 0 TV: 1	CHU	TWINNING partner
13.	DEVELOPMENT OF A MODEL FOR EVALUATING THE QUALITY OF FINANCIAL MANAGEMENT AND CONTROL ²⁵	13.1	Introducing Annual Management Declarations on internal controls by executives of PFBIs	4 th quarter of 2018	Annual Management Declaration on internal controls introduced BV: No TV: Yes	CHU	
14.	COMMUNICATION OF ACCURATE, RELEVANT AND TIMELY INFORMATION IN RELATION TO FINANCIAL AND OPERATIONAL PERFORMANCE INSIDE AND OUTSIDE THE ORGANIZATION ²⁶	14.1	Amendments of the existing regulation governing the principles of public administration internal organization will ensure establishing, i.e. designating an internal organizational unit which will be in charge of internal and external communication through preparation of accurate, relevant and timely information in relation to financial and operational performance to be published inside and outside the organization.	4 th quarter of 2017	Regulation adopted BV: No TV: Yes	Ministry of Public Administration and Local Self-government	

²⁴ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measures 11.4. and 12.2.

²⁵ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measure 11.2.

²⁶ Ditto, footnote 21

FURTHER DEVELOPMENT OF INTERNAL AUDIT IN TERMS OF PROFESSIONALISM AND SCOPE OF WORK, MORE EFFICIENT USE OF AVAILABLE RESOURCES AND DEVELOPMENT OF THE QUALITY ASSESSMENT SYSTEM						
Objectives	No.	Measure / Activity	Time frame	Indicator	Leading Institution	Partner Institutions
15. DEVELOPMENT OF PROFESSIONAL SKILLS OF INTERNAL AUDITORS ²⁷	15.1	Organizing meetings aimed at exchange of experiences among internal auditors from the IPA beneficiary institutions, Audit Authority Office of EU funds and the CHU	Once a year	Minutes of the meetings	Ministry of Finance / CHU	IPA beneficiary institutions, Audit Authority Office of EU funds
	15.2	Stipulating the continuing professional development of internal auditors in a regulation	4 th quarter of 2017	Regulation on continuing professional development of internal auditors adopted BV: No TV: Yes	Ministry of Finance / CHU	
	15.3	Harmonizing the training materials required for the implementation of the updated Manual for Internal Audit	30 days after updating of the Manual for Internal Audit	Training material updated	Ministry of Finance / CHU	

²⁷ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measures 11.2, 13.2 and 13.3.

16.	DEVELOPMENT OF A MODEL FOR EVALUATING QUALITY OF WORK OF INTERNAL AUDITORS ²⁸	16.1	Stipulating external evaluation of quality of work of internal audits in the PFBIs by a regulation	3 rd quarter of 2018	Regulation on external quality control of internal audits adopted BV: No TV: Yes	Ministry of Finance / CHU	TWINNING partner
		16.2	Development of a model for internal assessment of the quality of internal audit units which will be used by the internal audit units and will be prepared by the CHU, and development of guidelines for quality assurance of internal audits for executives of internal audit units	4 th quarter of 2018	Model for internal quality assessment of the internal audit and guidelines for quality assurance of the internal audit developed for the executives of internal audit units BV: 0 TV: 1	Ministry of Finance / CHU	TWINNING partner
17.	ESTABLISHING MINIMUM CRITERIA FOR ORGANIZING A JOINT INTERNAL AUDIT OF TWO OR MORE PFBIs (FROM A DESIGNATED TERRITORY, FOR THE SAME-TYPE OR SIMILAR ACTIVITIES, ON A SMALLER SCALE) ²⁹	17.1	Development of Guidelines for the establishment of the internal audit functions within small PFBIs, in relation to establishing the joint internal audit unit	4 th quarter of 2018	Guidelines for establishing the functions of internal audits in small PFBIs developed for setting-up of the joint internal audit unit BV: 0 TV: 1	Ministry of Finance / CHU	KJC, TWINNING partner

²⁸ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measure 11.2.

²⁹ Envisaged by the Public Financial Management Reform Programme for 2016-2020, Measure 13.5.

MONITORING OF THE STRATEGY IMPLEMENTATION						
Objectives	No.	Measure / Activity	Time frame	Indicator	Leading Institution	Partner institutions
18. MONITORING AND REPORTING ³⁰	18.1	Setting-up a working group for internal financial control in the public sector from representatives of PFBIs and the CHU	30 days upon adoption of the Strategy	Working Group for internal financial control in the public sector established	PFBIs and CHU	
	18.2	Monitoring of the Strategy implementation and achieving of the goals, measures and activities included in the Action Plan, through meetings of the Working Group for internal financial control in the public sector.	Meetings at least twice a year	Report from the meeting BV: 0 TV: 4	Working Group for internal financial control and CHU	
	18.3	Annual reporting to the Government on conducted activities, results achieved and possible difficulties in implementing the objectives and measures	Once a year in the scope of the Consolidated Annual Report on the status of internal financial control in the public sector	Consolidated Annual Report on the status of internal financial control in the public sector BV: 0 TV: 2	CHU	

³⁰ Envisaged by the Public Finance Management Reform Programme for 2016 – 2020, measure 11.1.

■ ABBREVIATIONS

- **IFKJ** - Internal financial control in the public sector
- **PIFC** - Public Internal Financial Control
- **CHU** - Central Harmonization Unit
- **AFCOS** - Anti-fraud Coordination Services
- **FMC** - Financial Management and Control
- **IA** - Internal Audit
- **COSO** - The Committee of Sponsoring Organizations of the Treadway Commission, the National Commission on Fraudulent Financial Reporting
- **OLAF** - European Anti-fraud Office
- **INTOSAI** - Guidelines for internal control in the public sector issued by the International Organisation of Supreme Audit Institutions
- **SIGMA** - Support for Improvement in Governance and Management (joint initiative of the OECD and the European Union)
- **PEMPAL** - Public Expenditure Management Peer Assisted Learning
- **PFBI**s - Public Fund Beneficiary Institutions
- **SDC** - Swiss Agency for Development and Cooperation
- **UNDP** - United Nations Development Programme
- **TWINNING** - European Union instrument for institutional cooperation between Public Administrations of EU Member States and of beneficiary country
- **IT** - Information Technologies

