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MINISTRY OF FINANCE AND TREASURY

CENTRAL HARMONISATION UNIT

2018 CONSOLIDATED ANNUAL REPORT ON INTERNAL AUDIT

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1. Introduction

Pursuant to provisions of Article 25 of the Law on Internal Audit of the Institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 27/08 and 32/12) (hereinafter referred to as: “the BiH Law on Internal Audit”) the Central Harmonisation Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina (hereinafter referred to as: “the CHU MFT”), is obliged to prepare consolidated annual reports on internal audit (hereinafter referred to as: “the IA Consolidated Annual Report”).

IA Consolidated Annual Reports provide basic information on the internal audit system (hereinafter referred to as: “the IA System”) in BiH Institutions, CHU MFT activities, internal audit units (IAUs) and internal auditors, audited institutions, internal audits performed by BiH Institutions internal audit units (hereinafter referred to as: “the IAUs”) and activities taken in view of implementation of conclusions of the Council of Ministers of Bosnia and Herzegovina (CoM BiH).

The IA System is a part of the Public Internal Financial Control System (hereinafter referred to as: “the PIFC System) developed by the European Commission (EC) with the aim of providing assistance to countries in their process of accession to the European Union (EU) in terms of understanding and implementation of developed and efficient internal control systems (hereinafter referred to as: “the IC Systems”).

In addition to BiH Law on Internal Audit, the IA System is defined by the Strategy of Development of Internal Financial Controls Systems in the Institutions of Bosnia and Herzegovina 2016-2018 (hereinafter referred to as: “the PIFC Development Strategy 2016-2018”). The PIFC Development Strategy was adopted by CoM BiH at its 87th session held on 29 December 2016.

The Coordination Committee of Central Harmonisation Units (hereinafter referred to as: “the CHU CC”) represents one of the key segments of IA in the BiH public sector. This body comprises Heads of CHU MFT, Central Harmonisation Unit of the Ministry of Finance of the Federation of Bosnia and Herzegovina (hereinafter referred to as: “the CHU FMF”) and Central Harmonisation Unit of the Ministry of Finance of Republika Srpska (hereinafter referred to as: “the CHU MF RS”).

The following represents an overview of the BiH Institutions IA legal framework, information on CHU MFT activities, IAUs and performed IA, recommendations in IA reports prepared during the RP (RP), overview of compliance with the IA Methodology, continuing professional education of internal auditors in BiH Institutions (CPE), overview of implementation of the PIFC Development Strategy 2016-2018 and measures and activities taken by BiH Institutions and IAUs in view of implementation of CoM BiH conclusions.

2. CHU MFT

In terms of IA, the obligation of BiH is determined in Article 90 of the Stabilisation and Association Agreement (hereinafter referred to as: “the SAA”) between the European Communities and their member states and Bosnia and Herzegovina in part entitled *Audit and Financial Control Cooperation* (*Official Gazette of BiH-International Agreements*, 10/08).

CHU MFT was established pursuant to the BiH Law on Internal Audit, the SSA, the Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina (*Official Gazette of BiH*, 5/03, 42/03, 26/04, 45/06, 88/07, 35/09, 59/09, 103/09, 87/12, 6/13 and 19/16)

and on the basis of the Decision of CoM BiH No.: 113/09 (*Official Gazette of BiH, 44/09*), with the general purpose of establishing and developing the system of financial control in BiH Institutions and particular purpose of establishing BiH the IA System and structure.

Introduction of PIFC in BiH was also supported by the European Union through the two following projects financed from the Instrument for Pre-Accession Assistance (hereinafter referred to as: "IPA") Funds of support to BiH: The Public Internal Financial Control Project (PIFC Project) and the Strengthening Public Financial Management Project (SPFM Project). The PIFC Project provided support to BiH Institutions in introduction and development of the IA and financial management and control (FMC) systems based on sound practices of EU member states and experiences from other countries which fulfil their obligations related to the process of EU accession. The SPFM Project provided support in reforming and establishing efficient public administration in BiH that is able to support the EU integration process, strengthening state- and entity- level administrative capacities in the area of policy making and coordination, as well as in the area of FMC.

The stated Projects also provided technical assistance to CHU MFT through CHU CC. The PIFC Project was implemented in two segments, the IA segment and the FMC segment. The SPFM Project provided support to improvement of the FMC system and approximation of used models and presented experience from neighbouring and other countries in the area of CPE. This Project was completed in mid-2015.

Implementation of a new EU project entitled *Improvement of public internal financial control in Bosnia and Herzegovina* (PIFC 3 Project) started on 1 October 2018. The Project is financed from the EU IPA Programme for BiH. The PIFC 3 Project is directed toward supporting public finance management reform in the EU accession process through strengthening capacities for implementation of FMC at all levels of governance in BiH. It is envisaged for the PIFC 3 Project to provide support to CHUs and CHU CC, as well as in the area of IA through development of internal and external control and in the area of FMC through improvement of the legal framework, IC Standards and operative instructions and procedures in accordance with EU standards and practices. It is also planned to support reporting and preparation of IA and FMC Consolidated Annual Reports.

The PIFC framework comprises three pillars so as to ensure sufficient synergy effects and ensure reasonable understanding of adequate and effective ICs:

- Functionally independent and decentralised IA-the role of providing assistance to Heads of BiH Institutions by reviewing IC adequacy and effectiveness and giving recommendations with the aim of improving operation of BiH Institutions;
- FMC-directed toward strengthening responsibility for achieving goals of BiH Institutions and cost-efficient, efficient and effective FMC system in BiH Institutions, and
- CHUs, as separate units for development and directing the PIFC process.

Through their CHUs and documents approved by the CHU CC, all levels of governance developed and prepared their own documents adapted to their individual needs. This coordinated approach facilitated a single approach to regulations in terms of IA Methodology.

Pursuant to the BiH Law on Internal Audit, CHU MFT is authorised to develop, manage and coordinate IA in BiH Institutions. In accordance with its competencies defined by the same Law, CHU MFT achieved the following:

- a) Preparation of a proposal for amendments to the BiH Law on Internal Audit after being agreed upon by the CHU CC;
In 2012, CHU MFT prepared the Draft Law on the BiH Law on Internal Audit ensuring quality legal preconditions for establishment of an efficient and cost-effective IA System in BiH Institutions. Upon its adoption, the said Law was published in the *Official Gazette of BiH, 32/12*.
This addition to the legal solution defines performance of IA in BiH Institutions so as to ensure more efficient and rational establishment of IAUs and prevent establishment of excess number of IAUs. This would ensure a smaller number of IAUs that will, in accordance with different grouping criteria and fulfilment of conditions, enable IA coverage of multiple organisation- and competency-wise

similar BiH Institutions, therefore resulting in a significant material effect in view of preventing irrational number of staff and costs. This modification enabled establishment of a single IAU charged with IA in multiple organisation- and competency-wise similar BiH Institutions in accordance with the legally defined principles.

- b) Preparation and implementation of a training and certification programme for internal auditors in BiH Institutions after it was agreed upon the CHU CC.
Civil servants charged with IA and FMC in BiH Institutions, RS and FBiH completed training under PIFC and SPFM Projects financed by the EU. Different levels of training were provided for participants in different areas.
CHU MFT adopted the Training and Certification Programme for Internal Auditors in the Institutions of Bosnia and Herzegovina (hereinafter referred to as: “the Training and Certification Programme”) published in the *Official Gazette of BiH*, 7/15. In accordance with the Training and Certification Programme and its legal obligation, CHU MFT adopted the Decision on the method of scoring, recording and reporting on the continuing professional education of internal auditors in the institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 92/15 and 56/17) (hereinafter referred to as: “the CPE Decision”) and the Instruction on continuing professional education of internal auditors in the institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 97/15) (hereinafter referred to as: “the CPE Instruction”). The stated by-laws define the method of acquiring the vocation and certification of an authorised internal auditor in BiH Institutions, as well as the method of recognition of training of internal auditors in BiH Institutions.
In 2016 and 2017, in accordance with the Training and Certification Programme, CHU MFT organised trainings for internal auditors in BiH Institutions with the purpose of acquiring certificates of certified internal auditors. The trainings comprised theoretical training, a written exam and practical training in view of performing IA in BiH Institutions under the expert control of mentors. By end-2017, CHU MFT certified the total of 30 internal auditors who met the conditions for acquiring the certificate by the date of issuance of the certificates.
In the RP, CHU MFT organised trainings for internal auditors in BiH Institutions on topics defined in the Training and Certification Programme. During the same period, the CHU CC organised a conference attended by internal auditors from the public sector of RS and FBiH in addition to internal auditors in BiH Institutions.
In accordance with the regulations of CPE (hereinafter referred to as: “the CPE Regulations”) and on the basis of submitted requests, CHU MFT gives its opinion on recognition of CPE training organised by international and domestic organisations, as defined by the Training and Certification Programme and the CPE Decision. In 2018, CHU MFT received and processed the total of 93 requests from IAUs for scoring trainings as CPE and issued its opinions in a timely manner.
- c) Adoption and implementation of internal audit standards and the Code of Ethics for internal auditors in BiH Institutions upon being agreed upon by the CHU CC;
CHU MFT published the Methodology of Internal Audit in the Institutions of Bosnia and Herzegovina (hereinafter referred to as the: “IA Methodology” in the IA Manual for Internal Audit (hereinafter referred to as: “the IA Manual”) with Internal Audit Standards (hereinafter referred to as: “the IA Standards”) in the Institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 82/11) (hereinafter referred to as: “the IA Manual”) based on framework documents approved by the CHU CC.
In 2017, CHU MFT prepared and submitted, on the basis of the decision of the CHU CC, the Decision on adoption of standards of internal audit in the institutions of Bosnia and Herzegovina (hereinafter referred to as: “the IA Standards Decision”) prescribing adoption, publication and application of International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (hereinafter referred to as: “the IIA Standards”) that came into force on 1 January 2017. The IA Standards Decision was published in the *Official Gazette of BiH*, 93/17.
The Code of Ethics for internal auditors in BiH Institutions is an integral part of the IA Methodology and harmonised with the International Framework of Professional Practice of Internal Auditing¹.
- d) Adopted and implemented the IA Methodology upon being agreed upon by the CHU CC;

¹ *The International Professional Practices Framework* – published by the *Institute of Internal Auditors (IIA)*

In addition to the IA Manual and framework documents agreed upon by the CHU CC, CHU MFT prepared and published the IA Charter of Internal Audit in BiH Institutions (*Official Gazette of BiH*, 82/11 and 30/18) (hereinafter referred to as: “the IA Charter”) and the Code of Ethics as parts of the IA Methodology. CHU MFT also published the Agreement on Internal Audit Function in the Institutions of Bosnia and Herzegovina (hereinafter referred to as: “the IA Agreement” (*Official Gazette of BiH*, 73/12 and 32/18). The IA Charter determines the general IA approach, its purpose and goal, independence, the role and scope, responsibilities of heads and internal auditors in IAUs, as well as authorisations to access documents, human resources and physical assets relevant for performing IA and defines the scope of IAUs and reporting and procedures in case of identified indications of fraud.

The Code of Ethics is necessary and appropriate for the IA profession which is based on trust in objective reasoning on adequate management of risks, control systems and management. It defines principles and rules of conduct to be observed and complied with by internal auditors, representing the basis for professional provision of IA services.

With the aim of creating conditions for implementation of laws and by-laws, CHU MFT prepared and published the text of the IA Agreement prescribing mutual rights and obligations of IAUs charged with, in accordance with the stated regulations, performing IA in multiple BiH Institutions and in the BiH Institution in which they provide IA services.

- e) Adopted and implemented the Strategy of Development of Internal Audit in the Public Sector of BiH upon being agreed upon by the CHU CC;

Strategy of Public Internal Financial Control in the Institutions of Bosnia and Herzegovina (hereinafter referred to as: “the PIFC Strategy”), as a comprehensive presentation of the new concept of public finance management and activities for further development, was the key strategic document adopted by CoM BiH at its 110th session held on 30 December 2009.

During 2016, CHU MFT prepared the Strategy of Development of Internal Financial Controls Systems in the Institutions of Bosnia and Herzegovina 2016-2018 (hereinafter referred to as: “the PPIFC Development Strategy 2016-2018) which was adopted by CoM BiH at its 87th session held on 29 December 2016. The PPIFC Development Strategy 2016-2017 was aligned with recommendations provided by SIGMA² and the General Directorate for Budget of the European Commission and represents the second in line strategic document in the field of IA in BiH Institutions.

The PIFC Development Strategy 2016-2018 comprises analysis of the previous PIFC state, including analysis of legal and institutional frameworks and special emphasis on practical implementation of these systems. Complete implementation of the PIFC Development Strategy 2016-2018 should improve the quality of public funds management through alignment with EU standards and practices, thus ensuring enhanced transparency and responsibility and reduction in the number of negative opinions stated by external audit. Achievement of goals and measures envisaged in the PIFC Development Strategy 2016-2018 directly contribute to complying with requests related to further EU integration of BiH.

- f) Approved rulebooks on internal organisation of BiH institutions establishing IAUs in part related to IA. Pursuant to the BiH Law on Internal Audit, CHU MFT published the Decision on criteria for establishment of IAUs in the institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 49/12 and 69/17) (hereinafter referred to as: “the IAUs Decision”) and the Rulebook on employment of internal auditors in the institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, 81/12 and 99/14) (hereinafter referred to as: “the IA Employment Rulebook”), thus fulfilling all preconditions for submission of proposals of rulebooks on internal organisation and systematisation of positions in IAUs for approval by CHU MFT for BiH Institutions establishing their IAUs. This activity is the result of publication of the stated documents that are, in turn, the result of analysis conducted by CHU MFT and revision of materials and proposals submitted by the PIFC Project experts for preparation of optimal IA structure in BiH Institutions. These documents define establishment of a decentralised IA model in BiH Institutions, as well as obligation of BiH Institutions to establish their IAUs. Pursuant to the BiH Law on Internal Audit, CHU MFT approves amendments to rulebooks on internal organisation of BiH Institutions obliged to establish their IAUs pursuant to the stated regulations. As of 31 December 2018, 17 out of the total of 18 BiH Institutions obliged to establish their IAUs were

² Support for Improvement in Governance and Management, a joint OECD and EU initiative.

granted approval to amendments to their rulebooks on internal organisation. In accordance with its legal obligation, CHU MFT considered all submitted requests and gave recommendations and suggestions related to incomplete and unaligned requests prior to granting the final approval.

- g) Coordinated activities of IAUs and establishment of IA relationship with BiH and international institutions;

Currently, all 18 BiH Institutions required to do so have established their IAUs in accordance with applicable regulations. Out of 18 BiH Institutions, 15 BiH Institutions established their IAUs in accordance with internal audit regulations (hereinafter referred to as: “the IA regulations), while three institutions established their IAUs in accordance with rulebooks on internal organisation which are not aligned with relevant regulations. In accordance with its role, CHU MFT ensures equal access to IA Methodology and regulations to all IAUs and coordinates operations of internal auditors in the field and reports on their activities in IA Consolidated Annual Reports. Data on operations of IAUs and their characteristics are given in Part Four of the present document.

- h) Approved appointment of IAUs Heads and establishment of the Internal Audit Committee (IAC);
By publishing the IAUs Decision the IA Employment Rulebook CHU MFT defined the criteria for giving this type of approval. In accordance with the applicable IA regulations and on the basis of fulfilled conditions, CHU MFT timely provided its opinion on the submitted requests for appointment of IAUs Heads. As of 31 December 2018, CHU MFT gave approval to the total of 13 appointments.

We expect other BiH Institutions obliged to establish their IAUs to submit their relevant requests in the following period, upon implementation of provisions of the said IAUs Decision the IA Employment Rulebook and upon announcement of vacancies for IAUs Heads.

- i) Cooperated with the Audit Office of the Institutions of Bosnia and Herzegovina (AOI) with the aim of efficient and effective internal and external audit;
Conditions for operative cooperation between internal and external auditors are in place in the form of applicable INTOSAI standards³ and Guidelines (INTOSAI GOV) that the Coordination Committee of Supreme Audit Institutions published through the Decision on assumption of the framework of international standards of supreme audit institutions-ISSAI framework in BiH (*Official Gazette of BiH*, 38/11) (hereinafter referred to as: “the ISSAI Framework Decision”). In the submitted IAU Annual Reports, CHU MFT was informed that the given suggestions are observed through compliance with the IA Methodology and that the operative cooperation between the internal audit staff and auditors in the AOI is in place. Heads of CHU MFT and the AOI hold working meetings to improve their cooperation.

- j) Supervised implementation of all applicable IA regulations by IAUs;
CHU MFT supervises implementation of IA regulations through IAU Annual Reports and internal auditors representing the basis for preparation of IA Consolidated Annual Reports. Supervision is also performed through meetings of CHU MFT with IAUs Heads and internal auditors and providing consent and opinions in view of IA requests, as well as through approval of annexes to the IA Manual. Likewise, of IA performance internal quality assessment performed by IAUs Heads in accordance with the International Internal Audit Standards (IIAS) contributes to supervision at the level of IAUs.

In the RP, the Internal Audit Development Division of CHU MFT held 13 formal meetings with IAUs Heads and internal auditors and a number of informal consultative meetings on problems and dilemmas faced by internal auditors and possibilities and methods of improving quality of IA services in accordance with applicable regulations and the IA Method.

- k) Settled differences of opinion, as requested and as necessary, between IAUs Heads and Heads of BiH Institutions;
In the previous IA development phase, there were no requests for settlement of differences of opinion between IAUs Heads and Heads of BiH Institutions.

³ International Standards of Supreme Audit Institutions (ISSAI)

In addition to previously stated activities and in accordance with the IA Employment Rulebook and the Training and Certification Programme, and in cooperation with the FMF and professional associations Association of Internal Auditors in BiH-Sarajevo, Association of Internal Auditors from Banja Luka and Academic-Professional Association of Internal Auditors in BiH, CHU MFT verified, through assessment and inspection, in accordance with the defined criteria and with the purpose of issuing opinions, each of submitted request for verification of certificates of authorised internal auditors issued by the stated Associations and institutions. Up to and including 31 December 2018, CHU MFT issued the total of 289 opinions on acceptability of certificates of authorised internal auditors in view of qualifications for performing activities of internal auditors in BiH Institutions. Out of the stated total number of issued opinions, 29 opinions were issued in the RP. The number of verified certificates represents the evidence of the sufficient number of qualified candidates, i.e. of qualified competition for occupation of vacancies in BiH Institutions IAUs.

3. The basis for preparation of IA Consolidated Annual Reports

3.1 Legal framework

Establishment and development of a modern public expenditures management system in BiH Institutions represents a complex set of activities that have been and are still being implemented by BiH Institutions, starting from preparation of a legal framework, organisation and positioning of certain strategic planning segments, medium term and annual budgeting, programming, to installation and operative usage of a series of applicative solutions facilitating achievement of the defined goals and finally, achievement of the mission of each BiH Institution.

PIFC in BiH Institutions encompasses a part of the *acquis communautaire* established by the EU as a complete set of PIFC controls for sound management of revenues, expenditures, assets and liabilities in the public sector, regardless of their source.

The EU PIFC model separates functions from responsibilities from the FMC system, encompassing *ex ante*, current and *ex post* control and independent IA.

Based on the internationally accepted standards and the best EU practice, PIFC implies a whole, unified system established by the governments of Entities and CoM BiH with the purpose of budget controlling, auditing and reporting on and spending of EU funds. This system is aimed at alignment of legislation and transparent, cost-effective, efficient and effective public funds management (state funds and EU funds) and ensuring control over these.

PIFC encompasses all measures aimed at controlling state revenues, expenditures, assets and liabilities. It entails all internal control systems and all procedures in public institutions and creates confidence that public funds are purposefully spent and that the aim of their spending is achieved.

Pursuant to the BiH Law on Internal Audit and in accordance with the definition in the adopted IA Standards, IA represents independent and objective assurance and consultative activity created with the aim of adding value to and improving operations of BiH Institutions. It facilitates achievement of goals of BiH Institutions, ensuring systematic and disciplined approach to assessment and improvement of risk management, controls and management processes.

Article 25 of the BiH Law on Internal Audit prescribes an obligation of CHU MFT to prepare IA Consolidated Annual Reports. CHU MFT is authorised to prepare these on the basis of IAU Annual Reports submitted by IAUs Heads.

Upon approval by the MFT Minister, reports are submitted to CoM BiH for information on IA issues.

IA Consolidated Annual Reports include summary information on the number of performed IAs, given recommendations and the status of implementation of recommendations given in IAU Annual Reports on

the basis of reports IAU Annual Reports submitted to CHU MFT.

IA Consolidated Annual Reports are prepared in the format defined by CHU MFT.

For the needs of IA in BiH Institutions, CHU MFT prepared and published documents on IA Methodology necessary for quality activities and development of IA in BiH Institutions. These documents comply with framework documents adopted by the CHU CC.

3.2 IA Methodology in BiH Institutions

IA Methodology in BiH Institutions comprises:

- The Code of Ethics/The Code of Professional Ethics of Internal Auditors comprising principles and rules to be complied by internal auditors in performance of their activities so as to ensure independence, objectivity and fairness. In addition, internal auditors are obliged to continuing education with the aim of improving quality of their operations.
- The IA Charter determines the general IA approach, its purpose and goal, independence, the role and scope of IA, responsibilities of IAUs Heads/internal auditors, as well as authorisations to access documents, human resources and physical assets relevant for performing IA and defines the scope of IA activities, reporting and procedures in case of identified indications of fraud.
- Pursuant to the BiH Law on Internal Audit, the IA Manual defines the IA Methodology and performance in BiH Institutions/budget users financed from BiH Institutions budget. The IA Manual facilitates adoption of professional terminology, understanding and acceptance of audit techniques to be implemented by internal auditors in BiH Institutions. It is adapted to the public sector practice. The IA Manual is prepared in accordance with IIAS and experiences gained from the PIFC Project.
- The IA Standards were published by CHU MFT in their IA Standards Decision defining, pursuant to the BiH Law on Internal Audit that IA in BiH Institutions is to be performed in accordance with the IIA Standards, the implementation of which was approved by the CHU CC in their Decision No.: KO-12/17 of 6 December 2017. The IA Standards represent a set of principle-based requests for professional performance of IA and assessment of effectiveness of IA outcomes to be complied with by internal auditors in BiH Institutions as stipulated by the BiH Law on Internal Audit.

In addition to IA Standards, internal auditors use other regulations (rulebooks, procedures, guidelines and alike) and standards and guidelines applicable to IA activities, such as ISSAI and INTOSAI GOV published by the CHU CC in their ISSAI Framework Decision.

Moreover, the following relevant documents were published:

- The BiH Law on Internal audit and the Law on Amendments to the BiH Law on Internal Audit;
- The IAUs Decision;
- The IA Employment Rulebook;
- The IA Agreement
- The Training and Certification Programme
- The CPE Decision and
- The CPE Instruction

The BiH Law on Internal Audit, the IAUs Decision and the IA Employment Rulebook define which BiH Institutions are obliged to establish IAUs and the method and deadlines for establishment of IA in BiH Institutions. The IAUs Decision envisages establishment the total of 18 IAUs for performance of IA in 78 BiH Institutions.

Up to and including 31 December 2018, 17 out of 18 BiH Institutions met the obligation by submitting to CHU MFT proposals of rulebooks on internal organisation in part related to IA, for approval. It is expected

for the BHANSA (BHANSA) to align their Rulebook and staff their IAU so as to completely align their IAU with IA regulations.

We would like to remind that introduction of IA was an obligation assumed by BiH under the SAA between the European Communities and their member states and BiH.

At its 142 session held on 15 May 2018, on the occasion of presentation of the IA Consolidated Annual Report, CoM BiH adopted conclusions instructing BiH Institutions obliged to establish IAUs to secure, in cooperation with the MFT, funds and implement procedures of employment of internal auditors so as to comply with the plans for establishment and functioning of IA in BiH Institutions, instructing, at the same time, IAUs Heads to consistently apply the prescribed IA Methodology. Heads of IAUs and BiH Institutions are instructed to consistently apply written procedures related to the method of operations and implementation of the IA Charter and the IA Agreement and to monitor implementation of recommendations given in earlier IAU Annual Reports so as to determine whether particular activities were taken and results achieved. CHU MFT is obliged to continue developing IA in BiH Institutions internal and provide support to BiH Institutions establishing their IAUs in order to establish an operative and functional IA structure in BiH Institutions. Conclusions of CoM BiH and their implementation are treated in the separate part of the present document (Part 6).

4. 2018 IA Consolidated Annual Report by 2018 IAU Annual Reports

On the basis of IAU Annual Reports, CHU MFT prepared the 2018 IA Consolidated Annual Report. It provides information on activities of CHU MFT, the legal framework of IA in BiH Institutions, IAUs in and overview of their competencies, on IAU Annual Reports, IAUs plans, audited segments, given recommendations, the degree of implementation of recommendations and on compliance with IA Standards and Methodology by IAUs. It also provides overview of establishment and development of the IA System, as well as information on the PIFC Development Strategy 2016-2018 and activities taken by IAUs and BiH Institutions in view of implementation of CoM BiH conclusions.

IA represents independent, objective assurance and consultative activity created with the aim of adding value and improving operations of an organisation. It helps in achievement of goals of the organisation by ensuring a systematic and disciplined approach to assessment and improvement of risk management, controls and management processes.

4.1 IAUs in BiH Institutions - overview of establishment

Up to and including 31 December 2018, IA in BiH Institutions is functionally and staff-wise established or in the process of establishment in accordance with applicable regulations in all 18 BiH Institutions envisaged to establish their IAUs.

In the tabular overview below, these BiH Institutions are grouped in three groups depending on the level of functionality and human resources of their IAUs as defined by the BiH Law on Internal Audit, IAUs Decision and the IA Employment Rulebook.

Table 1

I)	BiH Institutions with a completely functional and staffed IAU in accordance with relevant regulations
1.	Parliamentary Assembly of Bosnia and Herzegovina (PABiH)
2.	Ministry of Finance and Treasury of Bosnia and Herzegovina (MFT)
3.	Ministry of Defence of Bosnia and Herzegovina (MD)
4.	Ministry of Communications and Transport of Bosnia and Herzegovina (MCT)
5.	Border Police of Bosnia and Herzegovina (BP)
6.	State Investigations and Protection Agency (SIPA)
7.	Intelligence-Security Agency of Bosnia and Herzegovina (ISA)
8.	Indirect Taxation Authority of Bosnia and Herzegovina (ITA)
II)	BiH Institutions with the IAU established in accordance with relevant regulations but understaffed

9.	Ministry of Human Rights and Refugees of Bosnia and Herzegovina (MHRR)	Clarification: Understaffed (1 out of 2 positions are occupied)
10.	Ministry of Justice of Bosnia and Herzegovina (MJ)	Clarification: Understaffed (2 out of 3 positions are occupied)
11.	Ministry of Civil Affairs of Bosnia and Herzegovina (MCA)	Clarification: Understaffed (2 out of 3 positions are occupied)
12.	Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER)	Clarification: Understaffed (2 out of 3 positions are occupied)
13.	Ministry of Foreign Affairs of Bosnia and Herzegovina (MFA)	Clarification: Understaffed in accordance with the number of staffs envisaged in the new Rulebook on internal organisation aligned with IA regulations ⁴ . The IAU Head employment procedure is ongoing ⁵ .
14.	Service for Joint Affairs of the Institutions of Bosnia and Herzegovina (SJA)	Clarification: Understaffed (the position of an internal auditor is occupied, but not that of the head of the internal audit unit).
15.	Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina (IDDEEA)	Clarification: Understaffed (the position of the internal auditor is occupied). The IAU Head employment procedure ⁶ is ongoing.
III)	Institutions with the IAU not established in accordance with relevant regulations	
16.	Directorate for Coordination of Police Bodies in Bosnia and Herzegovina (DCPB)	Clarification: The position of the internal auditor is occupied in accordance with the applicable Rulebook on internal organisation which is not aligned with relevant IA regulations. Amendments to the Rulebook are ongoing ⁷ .
17.	Bosnia and Herzegovina Air Navigation Services Agency (BHANSA)	Clarification: The position of the internal auditor is occupied in accordance with the applicable Rulebook on internal organisation which is not aligned with the relevant IA regulations. Amendments to the Rulebook are ongoing ⁸ .
18.	Ministry of Security of Bosnia and Herzegovina (MS)	Clarification: The position of the internal auditor ⁹ is occupied in accordance with the applicable Rulebook on internal organisation which is not aligned with the relevant IA regulations. Amendments to the Rulebook are ongoing.

The previous Table shows that up to and including 31 December 2018, IA is completely established in accordance with the applicable IA regulations in the eight following BiH Institutions: PABiH, MFT, MD, MCT, BP, SIPA, ISA and ITA.

The following seven BiH Institutions established their IAUs in accordance with the applicable IA regulations, but the IAUs are understaffed: MHRR, MJ, MCA, MoFTER, MFA, SJA and IDDEEA. In the RP,

⁴ The IAU MFA was previously established in accordance with the Rulebook on internal organisation which was not aligned with relevant IA regulations. At its 156 session held on 5 November 2018, the CoM BiH adopted the new Rulebook on internal organisation of the MFA which is aligned with the relevant IA regulations and in force as of 8 November 2018.

⁵ Pursuant to the Decision of MFA Minister, the acting IAU Head was appointed for the period up to appointment of the permanent IAU Head.

⁶ The new IDDEEA Rulebook on internal organisation, aligned with the relevant IA regulations, was adopted at the 154 session of the CoM BiH held on 11 September 2018. In accordance with the new Rulebook, the IAU IDDEEA was established in October 2018, providing for a head of the unit and an internal auditor.

⁷ In January 2019, the opinion of MFT on the Proposal of the rulebook on internal organisation of DCPB was obtained.

⁸ BHANSA informed CHU MFT in their letter of 20 February 2019 that they are currently preparing the new Rulebook on internal organisation.

⁹ The position of the internal auditor in MS was occupied in November 2018 in accordance with the Rulebook on internal organisation of MS which is not aligned with the IA regulations.

the following two institutions completed the procedure of amending their Rulebooks on internal organisation: MFA and IDDEA. It is expected for these BiH Institutions to complete activities related to staffing their IAUs in the following period and in accordance with relevant regulations and new Rulebooks on internal organisation adopted by CoM BiH. We would like to state that SJA is the only BiH institution in which IAU was established in accordance with the applicable IA regulations, but no IAU Head was appointed, thus preventing consistent compliance with the BiH Law on Internal Audit and IA Standards in performing IA in this IAU.

The previous Table also shows that the following three BiH Institutions established their IUA's on the basis of their existing Rulebooks on internal organisation which are not aligned with the relevant IA regulations: DCPB, the MS and BHANSA. DCPB is currently obtaining opinions required for amendments to their Rulebook on internal organisation, while MS is currently in the procedure of adopting their new Rulebook on internal organisation which is aligned with relevant IA regulations. CHU MFT was informed by BHANSA that they are currently preparing a Rulebook on internal organisation and systematisation of positions recognising IA independence and functionality.

CHU MFT maintains the Register of Internal Audit Units (hereinafter referred to as: "the IAU Register") and the Register of Heads of Internal Audit Units and Internal Auditors (hereinafter referred to as: "the IAUs Heads Register"). On the basis of data recorded in the stated Registries, IAUs in 18 BiH Institutions established as of 31 December 2018 employ the total of 35 internal auditors.

In the RP, the number of IAUs increased by one, from 17 recorded up to 31 December 2017, to 18 recorded up to 31 December 2018. It has to be noted that establishment of the MS IAU in this RP represents finalisation of establishment of the envisaged number of IAUs in BiH Institutions. However, it has to be noted that out of the total envisaged number of 18 IAUs, only eight or 44 per cent of totally established IAUs are completely established and staffed in accordance with relevant regulations.

In accordance with the increase in the number of IAUs by one, the number of internal auditors was slightly increased. In accordance with CHU MFT IAUs and IAUs Heads Registers, the number of internal auditors increased to 35 internal auditors in 18 IAUs up to 31 December 2018, in comparison with 33 internal auditors in 17 IAUs recorded in the previous RP.

4.2 Competency of IAUs

Competency of each of the 18 IAUs in BiH Institutions is defined in the IAUs Decision.

Out of 18 established IAUs in BiH Institutions stated in Table 1, 10 IAUs perform audit in only one institution, i.e. in their parent BiH Institution. These IAUs function within MD, MFA, ITA, BP, SIPA, ISA, IDDEEA, DCPB, SJA and BHANSA.

The remaining eight IAUs, in accordance with the adopted decentralised model of establishment and organisation of the IA System in BiH Institutions, perform IA in multiple BiH Institutions in accordance with the IAUs Decision.

Accordingly, the *Internal Audit Unit of the Parliamentary Assembly of Bosnia and Herzegovina (PABiH IAU)* is competent for internal audit in PABiH, the Agency for Prevention of Corruption and Coordination of Fight Against Corruption (APCCFC), the Personal Data Protection Agency of Bosnia and Herzegovina (PDPA), the Procurement Review Body (PRB), the Central Election Commission (CEC), the Institution of Human Rights Ombudsman (HRO) and the Official Gazette of Bosnia and Herzegovina.

PABiH IAU signed the IA Charter and the IA Agreement with all BiH Institutions in which it is competent for performing IA.

In the RP, PABiH IAU performed IA in accordance with the adopted plans in PABiH, APCCFC, PDPA, PRB, CEC, HRO and the Official Gazette of BiH. Information on performed audits is shown in Tables No. 2, 3 and 4.

The *Central Internal Audit Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina (MFT CIAU)* performs audit in the following BiH Institutions: MFT, in the Presidency of Bosnia and Herzegovina (BiH Presidency), the Civil Service Agency Bosnia and Herzegovina (CSA), the Public Procurement Agency

of Bosnia and Herzegovina (PPA), the Insurance Agency of Bosnia and Herzegovina (IABiH), Agency for Statistics of Bosnia and Herzegovina (BHAS), the Archives of Bosnia and Herzegovina, the General Secretariat of the Council of Ministers of Bosnia and Herzegovina (CoM BiH GS), the Directorate for European Integration (DEI), the Directorate for Economic Planning of Bosnia and Herzegovina (DEP), the Public Administration Reform Coordinator's Office (PARCO), Srebrenica-Potočari Memorial Centre, the State Civil Service Appeals Board (CSB), the Legislative Office and CHU MFT.

All stated BiH Institutions, with the exception of the BiH Presidency, have signed the IA Charter and the IA Agreement with MFT CIAU. In the RP, MFT CIAU performed, in accordance with the adopted strategic annual work plans, IA in MFT, in the Archives of BiH, BHAS, PPA and IABiH. Details on completed IAs are shown in the tabular overview (Tables 2, 3 and 4).

The Internal Audit Unit of the Ministry of Transport and Communications of Bosnia and Herzegovina (MCT IAU) is competent for internal audit in the following BiH Institutions: MCT, the Agency for Postal Traffic of Bosnia and Herzegovina (PTA), the Directorate of Civil Aviation of Bosnia and Herzegovina (BHDCA), the Communications Regulatory Agency of Bosnia and Herzegovina (CRA) and in the Railway Regulatory Board of Bosnia and Herzegovina (RRB).

MCT IAU signed the IA Charter and the IA Agreement with all BiH Institutions falling under the scope of its competency.

In the RP, it performed IA in the following institutions: MCT, PTA, BHDCA and CRA.

The Internal Audit Unit of the Ministry of Human Rights and Refugees of Bosnia and Herzegovina (MHRR IAU) is competent for internal audit in the following BiH Institutions: MHRR, the Missing Person Institute of Bosnia and Herzegovina (MPI) and the Return Fund of Bosnia and Herzegovina (RF).

MHRR IAU signed the IA Charter and the IA Agreement with all BiH Institutions falling under the scope of its competency.

In the RP, MHRR IAU performed IA in accordance with the adopted strategic and annual work plans in MHRR, MPI and RF, as detailed in Tables 2, 3 and 4.

The Internal Audit Unit of the Ministry of Justice of Bosnia and Herzegovina (MJ IAU) is competent for IA in the following BiH Institutions: MJ, the Office of the Attorney General of Bosnia and Herzegovina (OAG), the High Judicial and Prosecutorial Council of Bosnia and Herzegovina (HJPC), the Court of BiH, the Prosecutor's Office of Bosnia and Herzegovina (POBiH), the Constitutional Court of Bosnia and Herzegovina (CCBiH), the Unit for Implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Custody and other Measures of Bosnia and Herzegovina and the Institute for Execution of Criminal Sanctions, Custody and Other Measures of Bosnia and Herzegovina¹⁰.

MJ IAU signed the IA Charter in the parent BiH Institution, i.e. MJ, and the IA Charter and the IA Agreement with OAG, HJPC and the Unit for Implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Custody and other Measures of BiH¹¹.

CCBiH, the Court of BiH and POBiH did not accept the request to sign the IA Charter and the IA Agreement with MJ IAU.

In the RP, MJIAU performed internal audit in accordance with the adopted strategic and annual plans in MJ, POBiH, HJPC and the Unit for Implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Custody and other Measures of BiH, as detailed in the tabular overview (Tables 2, 3 and 4).

The Internal Audit Unit of the Ministry of Civil Affairs of Bosnia and Herzegovina (MCA IAU) is competent for IA in the following BiH Institutions: MCA, the Agency for Anti-Doping Control of Bosnia and Herzegovina (AADC), Agency for Medicinal Products and Medical Devices of Bosnia and Herzegovina (AMPMD), the Agency for Pre-Primary, Primary and Secondary Education in Bosnia and Herzegovina (APPSE), the Labour and Employment Agency of Bosnia and Herzegovina (LEA), the Agency for Development of Higher Education and Quality Assurance of Bosnia and Herzegovina (ADHEQA), the State

¹⁰ It is expected that activities on establishment of the Institute for Execution of Criminal Sanctions, Custody and other Measures of BiH in which IA will be performed by MJ IAU to be completed in the following period.

¹¹ The IA Agreement and the IA Charter will be signed with the Institute for Execution of Criminal Sanctions, Custody and other Measures as soon as the relevant conditions are met.

Regulatory Agency for Radiation and Nuclear Safety of Bosnia and Herzegovina (SRARNS), Commission to Preserve National Monuments in Bosnia and Herzegovina (CPNM), the Centre for Information and Recognition of Qualifications in Higher Education in Bosnia and Herzegovina (CIR) and Bosnia and Herzegovina Mine Action Team (BHMAT).

MCA IAU signed the IA Charter and the IA Agreement with all BiH Institutions in which it is competent to perform IA.

In the RP, MCA IAU performed, in accordance with the adopted strategic annual work plans, IA in the following three BiH Institutions: CPNM, AADC and CIR¹². Information on performed IAs are shown in Tables No. 2, 3 and 4.

The Internal Audit Unit of the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER IAU) is competent for IA in the following BiH Institutions: MoFTER, the Food Safety Agency of Bosnia and Herzegovina (FSA), the Market Surveillance Agency of Bosnia and Herzegovina (MSA), the Foreign Direct Investments Promotion Agency of Bosnia and Herzegovina (FIPA), the Institute for Accreditation of Bosnia and Herzegovina (BATA), the Institute for Intellectual Property of Bosnia and Herzegovina (IIP), the Institute for Metrology of Bosnia and Herzegovina (IM), the Institute for Standardisation of Bosnia and Herzegovina (BAS), Ombudsman for Consumer Protection in Bosnia and Herzegovina (OCP), the Veterinary Office of Bosnia and Herzegovina, the Office for Harmonisation and Coordination of Payment Systems in Agriculture, Food and Rural Development of Bosnia and Herzegovina (OHCP), the Commission for Concessions of Bosnia and Herzegovina (CConc), the Competition Council of Bosnia and Herzegovina (CompC), Plant Health Protection Administration of Bosnia and Herzegovina (PHPA), the State Aid Council of Bosnia and Herzegovina (SAC) and the State Electricity Regulatory Commission (SERC).

MoFTER IAU signed the IA Charter and the IA Agreement with all BiH Institutions in which it is competent to perform IA.

In the RP, MoFTER IAU performed audit in accordance with the adopted strategic and annual plans of MoFTER IAU in MoFTER, FIPA, CompC and OHCP as detailed in Tables 2, 3 and 4.

The Internal Audit Unit of the Ministry of Security of Bosnia and Herzegovina (MS IAU) is competent for IA in the following BiH Institutions: MS, the Police Support Agency (PSA), the Agency for Forensic Testing and Expert Evaluation, the Agency for Education and Professional Training (AEPT) and in the Service for Foreigner Affairs (SFA).

MS IAU was established in November 2018. In the RP, MS IAU signed the IA Charter with MS, while the IA Charter and the IA Agreement are currently being concluded between MS IAU and other BiH Institutions under its competency.

All 18 IAUs in BiH Institutions were obliged to submit, pursuant to Articles 15 and 19 of the BiH Law on Internal Audit, their IAU Annual Reports representing the basis for preparation of the IA Consolidated Annual Report.

On the basis of data submitted in IAU Annual Reports, 17¹³ IAUs performed IA in 39 BiH Institutions in the RP. Information on performed IAs are shown in Tables 2, 3 and 4.

4.3 IAU Annual Reports

In accordance with their legal obligations, IAUs prepared their strategic (three-annual) plans and appropriate annual plans¹⁴ according to risk assessment. In the RP, all IAUs, with the exception of the MFT IAU¹⁵, which perform IA in multiple BiH Institutions prepared consolidated strategic and annual work plans enabling adequate planning of IA engagements, as well as monitoring implementation of planned activities in BiH Institutions under the competency of these IAUs.

IAUs prepared and adopted appropriate IA Charters.

In their IAU Annual Reports, IAUs stated that internal auditors complied with the provisions of the Code of

¹² In CIR, IA commenced in 2018 and was completed in February 2019.

¹³ MS IAU established in November 2018 is not included.

¹⁴ Ibid

¹⁵ In MFT IAU IA Annual Report, it is stated that it was not considered necessary to prepare consolidated plans since the plan included regular IA in only one BiH Institution.

Ethics, IA Charter, IA Manual and IA Standards, as well as other regulations regulating IA in BiH Institutions. Likewise, IAUs stated that IAU Annual Reports are prepared in accordance with the IA methodology defined in the IA Manual published and approved by CHU MFT.

The following table represents an overview of IAUs and BiH Institutions in which IA was performed in the RP, including information on signed IA Charters¹⁶ and IA plans, as well as planned and completed IAs by types.

Table 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Ordinal no.:	IAUs/ BiH Institutions audited in the RP	IA Charter signed	IAU Strategic Plan (IAU SP) adopted	IAU Annual Plan (IAU AP) adopted	Planned number of regular ¹⁷ and follow-up audits in IAU AP	Number of completed regular and follow-up audits ¹⁸ planned	Number of completed regular IAs	Number of completed follow-up IAs	Number of completed <i>ad hoc</i> ¹⁹ IAs	% of completion of regular and follow-up audits in the IAU AP (Column (7)/(6))
1.	PABiH IAU	Information stated in 1.1 through 1.6			8	8+1²⁰	6	3	1	100%
1.1.	<i>PABiH</i>	YES	YES	YES	2 ²¹	3 ²²	2	1	1	100%
1.2.	<i>APCCFC</i>	YES	YES	YES	1	1	1	-	-	100%
1.3.	<i>PDPA</i>	YES	YES	YES	1	1	1	-	-	100%
1.4.	<i>PRB</i>	YES	YES	YES	2	2	1	1	-	100%
Ordinal no.:	IAUs/ BiH Institutions audited in the RP	IA Charter signed	IAU Strategic Plan (IAU SP) adopted	IAU Annual Plan (IAU AP) adopted	Planned number of regular ²³ and follow-up audits in IAU AP	Number of completed regular and follow-up audits ²⁴ planned	Number of completed regular IAs	Number of completed follow-up IAs	Number of completed <i>ad hoc</i> ²⁵ IAs	% of completion of regular and follow-up audits in the IAU AP (Column (7)/(6))
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

¹⁶ Data on all BiH Institutions which signed or did not sign the IA Charter are stated in point 4.2 of the present document, while Table 2 shows data only for BiH Institutions in which IA was performed in 2018.

¹⁷ Regular audit implies performance of IA and statement of an independent assurance, including objective overview and assessment of evidence for the purpose of producing an opinion on the subject-matter of the audit planned in IAU SP and IAU AP approved by Heads of BiH Institutions.

¹⁸ In accordance with relevant regulations and approved IA plans, follow-up audits are performed in a defined period upon completion of regular audit, with the purpose of establishing whether recommendations given in IA reports have been implemented.

¹⁹ IAs initiated at the request of Heads of BiH Institutions.

²⁰ One regular audit transferred from 2017 was also performed in PABiH.

²¹ In addition to one regular and one follow-up audit, the IAU AP envisages one *ad hoc* audit, and it was performed.

²² One regular audit, planned for 2017, was completed in 2018.

²³ Regular audit implies performance of IA and statement of an independent assurance, including objective overview and assessment of evidence for the purpose of producing an opinion on the subject-matter of the audit planned in IAU SP and IAU AP approved by Heads of BiH Institutions.

²⁴ In accordance with relevant regulations and approved IA plans, follow-up audits are performed in a defined period upon completion of regular audit, with the purpose of establishing whether recommendations given in IA reports have been implemented.

²⁵ IAs initiated at the request of Heads of BiH Institutions.

1.5.	CEC	YES	YES	YES	1	1	-	1	-	100%
1.6.	HRO	YES	YES	YES	1	1	1	-	-	100%
2.	MFT CIAU	Information stated in 2.1 through 2.5			3	3+4 ²⁷	7	-	-	100%
2.1.	MFT	YES	YES	YES	3	3	3	-	-	100%
2.2.	Archives of BiH	YES	YES	YES	-	1 ²⁸	1	-	-	-
2.3.	BHAS	YES	YES	YES	-	1 ²⁹	1	-	-	-
2.4.	PPA	YES	YES	YES	-	1 ³⁰	1	-	-	-
2.5.	IABIH	YES	YES	YES	-	1 ³¹	1	-	-	-
3.	MD IAU	YES	YES	YES	16	16	7	9	-	100%
4.	MCT IAU	Information stated in 4.1 through 4.4			10	10	6	4	1	100%
4.1.	MCT	YES	YES	YES	5 ³²	5	2	3	1	100%
4.2.	APT	YES	YES	YES	1	1	1	-	-	100%
4.3.	BHDCA	YES	YES	YES	1	1	1	-	-	100%
4.4.	CRA	YES	YES	YES	3	3	2	1	-	100%
5.	BP IAU	YES	YES	YES	6 ³³	6	3	3	1	100%
6.	SIPA IAU	YES	YES	YES	5	5	2	3	-	100%
7.	ISA IAU	YES	YES	YES	5	5	3	2	-	100%
8.	ITA IAU	YES	YES	YES	8	8	4 ³⁴	4	-	100%
9.	MHRR IAU	Information stated in 9.1 through 9.3			7	6	3	3	-	85.7%
9.1.	MHRR	YES	YES	YES	3	3	1	2	-	100%
9.2.	RF	YES	YES	YES	2	2	1	1	-	100%
9.3.	MPI	YES	YES	YES	2	1	1	- ³⁵	-	50%
10.	MD IAU	Information stated in 10.1 through 10.4			8	7	4	3	-	87.5%
10.1.	MJ	YES	YES	YES	4	3	1	2	-	75%
10.2.	OAG	YES	YES	YES	1	1	1	-	-	100%
10.3.	HJPC	YES	YES	YES	1	1	1	-	-	100%
10.4.	Unit for implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Detention and Other Measures	YES	YES	YES	2	2	1	1	-	100%
11.	MCA IAU	Information stated in 11.1 through 11.3			7	5	3	2	-	78.5%
11.1.	CPNM	YES	YES	YES	2	2	1	1	-	100%
11.2.	AADC	YES	YES	YES	4	3	2	1	-	75%
11.3.	CIR	YES	YES	YES	1	* ³⁶	*	-	-	50%
12.	MoFTER IAU	Information stated in 12.1 through 12.4			5	5	5	-	-	100%
12.1.	MoFTER	YES	YES	YES	2	2	2	-	-	100%

²⁶ A new IA charter aligned with the IA Charter published in the *Official Gazette of BiH*, 30/18 was not signed, i.e. the earlier IA Charter aligned with the IA Charter published in the *Official Gazette of BiH*, 82/11 is still applicable.

²⁷ MFT IAU performed three audits from the IAU AP for 2018 and four audits transferred from 2017.

²⁸ One regular audit, planned for 2017, was completed in 2018.

²⁹ One regular audit, planned for 2017, was completed in 2018.

³⁰ One regular audit, planned for 2017, was completed in 2018.

³¹ One regular audit, planned for 2017, was completed in 2018.

³² In addition to two regular and three follow-up audits, the IAU AP envisages one *ad hoc* audit in MCT, which was performed.

³³ In addition to three regular and three follow-up audits, the IAU AP envisages one *ad hoc* audit, which was performed.

³⁴ This number includes one audit of providing consultative services, planned in both IAU SP and AP.

³⁵ One follow-up audit commenced in 2017, but it is not completed.

³⁶ One regular audit commenced in 2018 and was completed in February 2019.

12.2.	FIPA	YES	YES	YES	1	1	1	-	-	100%
12.3.	CompC	YES	YES	YES	1	1	1	-	-	100%
12.4.	HCSP	YES	YES	YES	1	1	1	-	-	100%
13.	MFA IAU	YES	YES	YES	13	13	12	1	-	100%
14.	SJA IAU	YES	YES	YES	7 ³⁷	7	3	4	1	100%
15.	IDDEEA IAU	YES	YES	YES	6	5	2 ³⁸	3	1	83,3% ³⁹
16.	DCPB IAU	YES	YES	YES	3	3	2	1	-	100%
17.	BHANSA IAU	YES	YES	YES	6	3	1	2	-	50%
18.	MS IAU	YES	Internal audit established on 1 November 2018							
TOTAL in 2018							73	47	5	-
							In total 125 audits were completed		-	
TOTAL in 2017							64	52	3	-
							In total 119 audits were completed		-	

The previous Table indicates that in 2018, 17⁴⁰ IAUs which performed IA in the RP, prepared in total 125 IA reports, of which the total of 78 IA reports included an expert audit report on audited segments (73 regular audits and 5 *ad hoc* audits). The remaining 47 IA reports pertain to follow-up audits determining the degree of completion of recommendations given in earlier IA reports.

With the aim of monitoring performance and efficiency of IAUs, this Table also shows data from the previous IA Consolidated Annual Report prepared by CHU MFT. It is evident that in 2017, 17 IAUs established for the stated year prepared 119 IA reports, of which 67 IA reports pertain to regular audits and *ad hoc* audits, while the total of 52 follow-up audits were completed.

Separate data on the number of completed audits and given recommendations for each IAU are presented in Table 7, while the data on the average number of completed audits and given recommendations by IAUs and internal auditors for the previous two years are given in the clarification of Table 7.

CHU MFT maintains the Register of Internal Audit Charters (hereinafter referred to as: “the IA Charters Register”). Up to and including 31 December 2018, the total of 70 IA Charters are recorded, showing that 18 IAUs signed, in accordance with relevant regulations, the document with 70 BiH Institutions, the Heads of which are familiar with IA operations, tasks and authorisations of internal auditors.

Information on the number of prepared IA reports and given recommendations and the segments audited in the RP, including information on the number of internal auditors in the competent IAU are given in the following tabular overview, by BiH Institutions.

³⁷ In addition to three regular and four follow-up audits, the IAU AP envisages one *ad hoc* audit which was performed.

³⁸ In addition to two completed regular audits in IDDEEA, a third audit was initiated, as planned in the IAU AP.

³⁹ The total percentage of completion of the IDDEEA IAU AP is 85.7%, including the completed *ad hoc* audit initiated at the order of the IDDEEA Head.

⁴⁰ MS IAU established in November 2018 is not included.

Table 3

Ordinal no.:	Name of the BiH Institution-competent IAU	Number of IA staff in the IAU	The number of final IA reports	The number of given recommendations	The topics included in IA
1.1	PABiH IAU	2	4 (2 regular, 1 follow-up and 1 <i>ad hoc</i> audit	20 recommendations	-Cash operations -Official vehicles management -Public procurement and contracts implementation monitoring
1.2	APCCF-PABiH IAU		1 regular audit	4 recommendations	- Prevention of corruption
1.3	PDPA-PABiH IAU		1 regular audit	7 recommendations	- Contracted and other special services
1.4	PRB-PABiH IAU		2 (1 regular and 1 follow-up	6 recommendations	Budget planning and execution
1.5	CECP-PABiH IAU		1 follow-up audit	-	- Follow-up audit
1.6.	HRO-PABiH IAU		1 regular audit	7 recommendations	- Public procurements
2.1.	MFT-MFT CIAU	4 ⁴¹	3 regular audits	15 recommendations	-Establishment of an IT subsystem -Managing the property owned by BiH Institutions -Procurements-monitoring implementation of concluded contracts
2.2.	Archives of BiH-MFT CIAU		1 regular audit	3 recommendations	-Financial internal control (FIC)-implementation of integrity improvement
2.3.	BHAS-MFT CIAU		1 regular audit	2 recommendations	-FIC-implementation of integrity improvement measures
2.4.	PPA-MFT Central IAU		1 regular audit	6 recommendation	-FIC-implementation of integrity improvement measures
2.5.	IA BiH-MFT CIAU		1 regular audit	3 recommendations	-FIC-implementation of integrity improvement measures
3.	MD-MD IAU	4	16 (7 regular and 9 follow-up audits)	34 recommendations	Planning of budget expenditures Acceptance and issuance of oil and oil derivatives Cash operations Salaries and remunerations accounting Implementation of contracts for maintenance
4.1.	MCT-MCT IAU	2	6 (2 regular, 3 follow-up audits and 1 ad hoc audit).	24 recommendations	Public procurements Salaries and remunerations accounting Preparation of planning and study documents for the Adriatic-Ionian Highway through BiH Follow-up audits
4.2.	APT-MCT IAU		1 regular audit	4	- Public procurements

⁴¹ During 2018, MFT IAU was not operating in full capacity.

4.3.	BHDCA-MCT IAU		1 regular audit	7	- Public procurements
4.4.	CRA-MCT IAU		3 (2 regular and 1 follow-up audit)	19	-Public procurements -Salaries and remunerations accounting -Follow-up audit
5.	BP-BP IAU	2	7 (3 regular, 3 follow-up and 1 <i>ad hoc</i> audit)	21 recommendations	-Allowance for transportation to and from work -Surveillance of the state border -Public procurements -Allowance for separate maintenance and accommodation and
6.	SIPA-SIPA IAU	2	5 (2 regular and 3 follow-up audits)	8 recommendations	-Contracted and other services -Cash operations -Follow-up audits
7.	ISA-ISA IAU	2	5 (3 regular and 2 follow-up audits)	10 recommendations	-Fixed assets -Cash operations -Contracted and other services
8.	ITA-ITA IAU	4	8 (4 regular and 4 follow-up audits)	44 recommendations	-Indirect taxes liabilities management -Forced collection procedure -Budget planning and execution -Consultative services to the expert group for establishment and development of financial
9.1.	MHRR-MHRR IAU	1	3 (1 regular and 2 follow-up audits)	3 recommendations	-Grants to non-government organisations involved in protection of human trafficking victims -Follow-up audits
9.2.	RF-MHRR IAU		2 (1 regular and 1 follow-up audit)	1 recommendation	-Budget planning and execution -Follow-up audit
9.3.	MPI-MHRR IAU		1 regular audit	8 recommendations	- Budget planning and execution
10.1.	MJ-MJ IAU	2 ⁴²	3 (1 regular and 2 follow-up audits)	6 recommendations	-Human resources management and -Follow-up audits
10.2.	AOG-MJ IAU		1 regular audit	9 recommendations	- Human resources management and
10.3.	HJPC-MJ IAU		1 regular audit	10 recommendations	- Human resources management

⁴² MCA IAU was not operating in full capacity in 2018.

10.4.	Unit for implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Detention and Other Measures-MJ IAU		2 (1 regular and 1 follow-up audit)	2 recommendations	-Human resources management and -Follow-up audit
11.1.	CPN-MCA IAU	2	2 (1 regular and 1 follow-up audit)	10 recommendations	-Salaries and remunerations
11.2.	AADC-MCA IAU		3 (2 regular and 1 follow-up audit)	14 recommendations	-Salaries and remunerations Public procurements Follow-up audit
11.3.	CIR-MCA IAU		*(1 commenced regular audit)	-	- Public procurements
12.1.	MoFTER-MoFTER IAU	2	2 regular audits	17 recommendations	-Budget planning and execution -Salaries and
12.2.	FIPA-MoFTER IAU		1 regular audit	10 recommendations	- Human resources management
12.3.	CompC-MoFTER IAU		1 regular audit	8 recommendations	- Human resources management
12.4.	HCSP-MoFTER IAU		1 regular audit	10 recommendations	- Human resources management
13.	MFA-MFA IAU	1	13 (12 regular and 1 follow-up audits)	63 recommendations	-Contracted services -International legal aid in criminal and civil matters -Travelling expenses -Conclusion and deposition of international agreements -Bilateral agreements -Fulfilment of obligations of the Ministry and Diplomatic and Consular Missions from the SAA -Revisions of Diplomatic and Consular Missions of BiH in Aman, Athens, London, Brussels, Zagreb
14.	SJA - SJA IAU	1	8 (3 regular, 4 follow-up and 1 <i>ad hoc</i> audit)	17 recommendations	-Employment relations -Internal security-anti-robbery security system -Own revenues -Utilisation of human resources
15.	IDDEEA-IDDEEA IAU	1	6 (2 regular, 1 <i>ad hoc</i> and 3 follow-up audits)	13 recommendations	-Public procurements -Maintenance of equipment, -Recording and refunding of revenues, -Follow-up audits
16.	DCPB-DCPB IAU	1	3 (2 regular and 1 follow-up audits)	10 recommendations	-List and description of assets and liabilities -Public procurements -Follow-up audit

17.	BHANSA-BHANSA IAU	1	3 (1 regular and 2 follow-up audits)	-	- Achievement of rights for accommodation and separate maintenance allowance - Follow-up audits
18.	MS- MS IAU	1	IAU established in November 2018-no audits were performed in the RP		
TOTAL in 2018		35	125*	455	-
TOTAL in 2017		33	119**	386	-
Note: *The total number of 125 IAs comprises 73 regular, 47 follow-up and 5 <i>ad hoc</i> IAs ***The total number of 119 IAs comprises 64 regular, 52 follow-up and three <i>ad hoc</i> internal audits					

In 125 IA reports prepared in 2018, of which 78 were regular and *ad hoc* audits, 17 IAUs gave 455 recommendations.

In general, majority of recommendations given by internal auditors in their IA reports in 2018 pertain to recommendations related to:

- Improvement of public procurement systems;
- Improvement of human resources system management;
- Improvement of salaries and remunerations accounting, and
- Improvement in the area of budget planning and execution.

The degree of implementation of recommendations given in 2017 IA reports by BiH institutions is presented in the following Table, while the degree of implementation of recommendations given in 2018 will be known after expiration of the final date for their implementation, in the 2019 IA Consolidated Annual Report.

Table 4

Ordinal no.:	Name of the institution-competent internal audit unit	Year	The number of given IA recommendations	The number of implemented IA recommendations	Recommendation implementation in %	The number of unimplemented IA recommendations	Unimplemented recommendations in %	The number of IA recommendations for which the final date for implementation has not expired	Partially implemented IA recommendations	Comment
1	PABiH-PABiH IAU	2017	-	-	-	-	-	-	-	-
		2018	20	2	10%	5	25%	10	3	-
2	APCCFC-PABiH IAU	2017	-	-	-	-	-	-	-	-
		2018	4	-	-	-	-	4	-	-
3	PDPA-PABiH IAU	2017	-	-	-	-	-	-	-	-
		2018	7	-	-	-	-	7	-	-
4	PRB-PABiH IAU	2017	6	3	50%	1	16.7%	2	-	-
		2018	6	-	-	-	-	6	-	-

Ordinal no.:	Name of the institution-competent internal audit unit	Year	The number of given IA recommendations	The number of implemented IA recommendations	Recommendation implementation in %	The number of unimplemented IA recommendations	Unimplemented recommendations in %	The number of IA recommendations for which the final date for implementation has not expired	Partially implemented IA recommendations	Comment
5	CEC-PABiH IAU	2017	6	3	50%	-	-	3	-	-
		2018	-	-	-	-	-	-	-	-
6	HRO-PABiH IAU	2017	-	-	-	-	-	-	-	-
		2018	7	-	-	-	-	7	-	-
7	MFT-MFT IAU	2017	7+6 ⁴³	-	-	6*	46.2%	7	-	*The status of recommendations was not determined
		2018	15	-	-	-	-	15	-	-
8	Archives of BiH-MFT IAU	2017	-	-	-	-	-	-	-	-
		2018	3	-	-	-	-	3	-	-
9	BHAS-MFT IAU	2017	-	-	-	-	-	-	-	-
		2018	2	-	-	-	-	2	-	-
10	PPA-MFT IAU	2017	-	-	-	-	-	-	-	-
		2018	6	1	16.7%	-	-	5	-	-
11	IABiH-MFT IAU	2017	-	-	-	-	-	-	-	-
		2018	3	1	33.3%	-	-	2	-	-
12	PARCO-MFT IAU	2017	5	2	40%	-	-	-	3	-
		2018	-	-	-	-	-	-	-	-
13	Srebrenica-Potočari Memorial Centre-MFT IAU	2017	2	2	100%	-	-	-	-	-
		2018	-	-	-	-	-	-	-	-
14	CSA-MFT IAU	2017	6 ⁴⁴	-	-	6*	100%	-	-	*The status of recommendations was not determined
		2018	-	-	-	-	-	-	-	-
15	CoM BiH GS-MFT IAU	2017	9 ⁴⁵	3	33.3%	6*	66.7%	-	-	*The status of recommendations was not determined
		2018	-	-	-	-	-	-	-	-

⁴³ Six recommendations given in audit performed in CoM BiH GS, MFT and CSA.

⁴⁴ Recommendations were given in audit performed in the CoM BiH GS, MFT and CSA.

⁴⁵ Ibid

Ordinal no.:	Name of the institution-competent internal audit unit	Year	The number of given IA recommendations	The number of implemented IA recommendations	Recommendation implementation in %	The number of unimplemented IA recommendations	Unimplemented recommendations in %	The number of IA recommendations for which the final date for implementation has not expired	Partially implemented IA recommendations	Comment
16	MD-MD IAU	2017	46	10	21.7%	24	52.2%	2	10	-
		2018	34	1	3%	-	-	33	-	-
17	MCT-MCT IAU	2017	4	-	-	4	100%	-	-	-
		2018	24	9	37.5%	2	8.3%	13	-	-
18	APT-MCT IAU	2017	-	-	-	-	-	-	-	-
		2018	4	-	-	-	-	4	-	-
19	BHDCA-MCT IAU	2017	-	-	-	-	-	-	-	-
		2018	7	-	-	-	-	7	-	-
20	CRA-MCT IAU	2017	-	-	-	-	-	-	-	-
		2018	19	18	94.7%	-	-	-	1	-
21	BP-BP IAU	2017	59	19	32.2%	17	28.8%	13	10	-
		2018	21	7	33.3%	3	14.3%	6	5	-
22	SIPA-SIPA IAU	2017	29	13	44.8%	3	10.3%	10	3	-
		2018	8	-	-	-	-	8	-	-
23	ISA-ISA IAU	2017	7	7	100%	-	-	-	-	-
		2018	10	10	100%	-	-	-	-	-
24	ITA-ITA IAU	2017	37	32	86.5%	1*	2.7%	-	4	*The recommendation was not implemented because the conditions for implementation are not met
		2018	44	-	-	-	-	44	-	-
25	MHRR-MHRR IAU	2017	13	7	53.8%	2	15.4%	-	4	-
		2018	3	-	-	-	-	3	-	-
26	RF-MHRR IAU	2017	2	2	100%	-	-	-	-	-
		2018	1	-	-	-	-	1	-	-
27	MPI-MHRR IAU	2017	2	-	-	-	-	2	-	-
		2018	8	-	-	-	-	8	-	-
28	MJ-MJ IAU	2017	11	-	-	11	100%	-	-	-
		2018	6	-	-	-	-	6	-	-

Ordinal no.:	Name of the institution-competent internal audit unit	Year	The number of given IA recommendations	The number of implemented IA recommendations	Recommendation implementation in %	The number of unimplemented IA recommendations	Unimplemented recommendations in %	The number of IA recommendations for which the final date for implementation has not expired	Partially implemented IA recommendations	Comment
29	OAG-MJ IAU	2017	-	-	-	-	-	-	-	-
		2018	9	-	-	-	-	9	-	-
30	HJPC-MJ IAU	2017	-	-	-	-	-	-	-	-
		2018	10	-	-	-	-	10	-	-
31	Unit for implementation of the Project of Construction of the Institute for Execution of Criminal Sanctions, Detention and Other Measures -MJ IAU	2017	-	-	-	-	-	-	-	-
		2018	2	2	100%	-	-	-	-	-
32	SRARNS-MCA IAU	2017	7	4	57.1%	-	-	1	2	-
		2018	-	-	-	-	-	-	-	-
33	APPSE-MCA IAU	2017	5	3	60%	-	-	1	1	-
		2018	-	-	-	-	-	-	-	-
34	ADHEQA-MCA IAU	2017	3	2	66.7%	-	-	1	-	-
		2018	-	-	-	-	-	-	-	-
35	CPN-MCA IAU	2017	-	-	-	-	-	-	-	-
		2018	10	7	70%	1	10%	1	1	-
36	AADC-MCA IAU	2017	-	-	-	-	-	-	-	-
		2018	14	7	50%	-	-	7	-	-
37	CIR-MCA IAU	2017	3	2	66.7%	-	-	1	-	-
		2018	One regular audit commenced in the RP and was completed in February 2019.							
38	MoFTER-MoFTER IAU	2017	13	4	31%	-	-	8	1	-
		2018	17	-	-	-	-	17	-	-
39	BAS-MoFTER IAU	2017	7	7	100%	-	-	-	-	-
		2018	-	-	-	-	-	-	-	-
40	IM -MoFTER IAU	2017	7	7	100%	-	-	-	-	-
		2018	-	-	-	-	-	-	-	-
41	FIPA-MoFTER IAU	2017	-	-	-	-	-	-	-	-
		2018	10	-	-	-	-	10	-	-
42	CompC-MoFTER IAU	2017	-	-	-	-	-	-	-	-
		2018	8	-	-	-	-	8	-	-
43	HCSP-MoFTER IAU	2017	-	-	-	-	-	-	-	-
		2018	10	-	-	-	-	10	-	-
44	MFA-MFA IAU	2017	31	15	48.4%	3	9.7%	7	6	-
		2018	63	30	47.6%	15	23.8	3	15	-

Ordinal no.:	Name of the institution-competent internal audit unit	Year	The number of given IA recommendations	The number of implemented IA recommendations	Recommendation implementation in %	The number of unimplemented IA recommendations	Unimplemented recommendations in %	The number of IA recommendations for which the final date for implementation has not expired	Partially implemented IA recommendations	Comment
45	SJA-SJA IAU	2017	29	29	100%	-	-	-	-	-
		2018	17	-	-	-	-	17	-	-
46	IDDEEA-IDDEEA IAU	2017	9	5	55.6%	1	11%	-	3	-
		2018	13	4	30.8%	1	7.7%	7	1	-
47	DCPB-DCPB IAU	2017	10	6	60%	3	30%	-	1	-
		2018	10	1	10%	-	-	9	-	-
48	BHANSA-BHANSA IAU	2017	17	9	53%	-	-	8	-	-
		2018	-*	-	-	-	-	-	-	*No recommendations were given in the performed
49	MS-MS IAU	2017	Internal audit unit of the Ministry of Security of BiH was established in November 2018							
		2018								
TOTAL in 2017			386	191	49.5%	84	21.8%	63	48	
TOTAL in 2018			455	100	-	27	-	302	26	

Table 4 represents data on the total number of given recommendations and the degree of their implementation for each BiH Institution in which IA was performed in the previous two years.

Since the final date for implementation of majority of recommendations given in 2018 has not expired, the total percentage of implemented and unimplemented recommendations in the total number of recommendations given for this year cannot be calculated. The degree of their implementation will be determined in the following period.

On the basis of data given in the previous Table, it is evident that the half of the total number of recommendations given in 2017 were implemented (191 recommendation or 49.5%); in turn, 48 recommendations were partially implemented, while the final date for implementation has not yet expired for 63 recommendations for which the degree of implementation will be determined in the following period.

The percentage of unimplemented recommendations in the total number of given recommendations (386) in 29 BiH Institutions, in which IA was performed in 2017, is 21.8%.

Data presented in the previous Table, on the basis of which it is evident that out of total recommendations given in 207 IA reports, 84 recommendations were not implemented and 48 recommendations were partially implemented. Furthermore, the fact that in certain BiH institutions the percentage of unimplemented recommendations exceeds 50% implies the necessity of improvements in this field. Improvements may be achieved by establishing stronger cooperation between IAUs and managements of BiH Institutions, on one side, and through strengthening cooperation between IAUs and auditors in the AOI, on the other side, alongside continuous improvement and increase in the quality of services provided by IAUs.

Likewise, managements of BiH Institutions should be interested in and motivated for provision of services and internal audit recommendations. Similarly, a relationship of trust must exist and be constantly improved in terms of credibility of internal auditors. Preparation of IA reports and recommendations must not be the only goal and purpose of IA. On the contrary, their implementation should be considered so as to aim at improving the FMC system and creating additional value in BiH Institutions, which has to be established as the aim of Heads of BiH Institutions and IAUs.

4.4. An overview of establishment and development of the IA System in BiH Institutions

On the basis of previously presented information, it may be concluded that previous development of the IA System in BiH Institutions showed progress and that the function and the role of IA is more recognised in BiH Institutions as a part of the total system of PIFC in BiH public sector.

The function of IA in BiH Institutions is clearly defined and based on the BiH Law on Internal Audit and evident in a single and harmonised IA Methodology, including the IA Standards.

Organisation of IAUs in BiH Institutions is based on a decentralised model founded on the, in the official languages of Bosnia and Herzegovina, so-called 3E principles (cost-effectiveness (*ekonomičnost*), effectiveness and efficiency), with clearly defined competencies of IAUs in view of IA functions in BiH Institutions.

The Code of Ethics, IA Charter, IA Manual, IA Standards and IA Agreement define the basic principles and relationships between providers of services-internal auditors and IAUs Heads, on one side, and users of IA services-managements of BH Institutions, on the other side.

Conditions for employment of internal auditors and IAUs Heads in BiH Institutions are based on identical general and special conditions for employment of internal auditors in each BiH Institution. All internal auditors in BiH Institutions fulfil conditions prescribed by the BiH Law on Internal Audit and the IA Employment Rulebook. Likewise, the IA System in BiH Institutions enables compliance with the so-called “equal pay for equal or similar work” principle implying that civil servants in BiH Institutions responsible for equal or similar work receive equal basic salary, i.e. all posts in different BiH Institutions implying similar work are grouped in the same salary grade. Positions of internal auditors and IAUs Heads are just as such.

Up to and including 31 December 2018, 15 out of 18 established IAUs were established in accordance with the IAUs Decision. This implies completion of alignment of Rulebooks on internal organisation in part related to IA with relevant provisions in view of description of IA tasks, as well as conditions for employment of internal auditors and IAUs Heads.

Two institutions, DCPB⁴⁶ and MS initiated but have not yet completed activities related to alignment of their Rulebooks on internal organisation.

BHANSa established its IAU in January 2017 in accordance with the Rulebook which is not aligned with IA regulations⁴⁷.

IA in all three stated BiH Institutions, as well as in IAUs of MHRR, SJA, MFA and IDDEEA⁴⁸ is performed by one internal auditor, which is not in accordance with the BiH Law on Internal Audit or IA Standards.

Table 5 represents an overview of activities taken on establishment of IAUs by BiH Institutions obliged to establish their IAUs, as well as an overview of occupancy of internal audit positions in these BiH Institutions.

Table 5

⁴⁶ In January 2019, DCPB obtained an opinion from MFT stating the Proposal of the rulebook on internal organisation in part related to IA is aligned with relevant regulations. They are currently preparing their replies and activities in accordance with the obtained opinion.

⁴⁷ BHANSa informed CHU MFT that they are currently preparing a new rulebook.

⁴⁸ During preparation of the IA Consolidated Annual Report, the procedure of appointment of the Head of IDDEEA IAU was initiated.

Ordinal no.:	Name of the institution	Proposal of the Rulebook on internal organisation is submitted to CHU MFT	Approval of CHU MFT is obtained	The Rulebook is submitted to CoM BiH for adoption	CoM BiH adopted the Rulebook	The number of internal auditors in the IAU approved by the Rulebook	Number of staff employed in the IAU up to and including 31 December 2018	% of the occupancy of the IAU	Comment
1	PABiH	YES	YES	YES	YES	2	2	100%	-
2	MFT	YES	YES	YES	YES	4	4		
3	MD	YES	YES	YES	YES	4	4	100%	-
4	MCT	YES	YES	YES	YES	2	2	100%	
5	BP	YES	YES	YES	YES	2	2	100%	-
6	SIPA	YES	YES	YES	YES	2	2		
7	ISA	YES	YES	YES	YES	2	2	100%	-
8	ITA	YES	YES	YES	YES	4	4	100%	-
9	MHRR	YES	YES	YES	YES	2	1*	50%	*The position of the internal auditor is vacant although the funds for employment have been secured in the budget
10	MJ	YES	YES	YES	YES	3	2*	66.7%	*The position of the internal auditor is vacant
11	MCA	YES	YES	YES	YES	3	2*	66.7%	The position of the internal auditor is vacant
12	MoFTER	YES	YES	YES	YES	3	2*	66.7%	*The position of the internal auditor is vacant
13	MFA	YES	YES	YES	YES	3	1*	33.3%	*Acting Head of the IAU was appointed up to appointment of the member of the staff for this position
14	SJA	YES	YES	YES	YES	2	1*	50%	*The position of the Head of the IAU is vacant although funds for employment are secured in the budget
Ordinal no.:	Name of the institution	Proposal of the Rulebook on internal organisation is submitted to CHU MFT	Approval of CHU MFT is obtained	The Rulebook is submitted to CoM BiH for adoption	CoM BiH adopted the Rulebook	The number of internal auditors in the IAU approved by the Rulebook	Number of staff employed in the IAU up to and including 31 December 2018	% of the occupancy of the IAU	Comment
15	IDDEEA (IDDEEA)	YES	YES	YES	YES	2	1*	50%	*The position of the internal auditor is occupied, while the procedure of appointment of the Head of the IAU is ongoing
16	DCPB	YES	YES	NO	NO	2*	1	50%	*The envisaged number of staffs (opinions are currently being obtained for the rulebook in order to submit the same to the CoM BiH)

17	BHANSA	NO	NO	NO	NO	-	1*	-	*The position of the internal auditor is occupied in accordance with the applicable Rulebook on internal organisation which is not aligned with the relevant IA regulations ⁴⁹
18	MS	YES	YES	NO*	NO	2**	1	50%	*The Rulebook on internal organisation is in the process of adoption **The number of staffs envisaged in the Rulebook on internal organisation

The previous Table shows that up to and including 31 December 2018, the total of 15 out of 18 BiH Institutions completed the procedure of amending their Rulebooks on internal organisation and established their IAUs in accordance with IA regulations, while the total of eight BiH Institutions have a completely staffed IAU.

During 2019, further operative and functional strengthening of IA in BiH Institutions is expected, primarily through formal and legal adoption of documents and rulebooks necessary for establishment of IA in all BiH Institutions in accordance with relevant regulations and staffing of IAUs that are not completely staffed.

Establishment of IAUs in accordance with IA regulations, which implies alignment of description of responsibilities and conditions for employment of IAUs staff and their quality staffing are necessary preconditions for further development and improvement of the IA System.

Understaffed IAUs have a multiple effect on the state and functioning of the IA System since, on one side, it decreases the scope of performed audit engagements, and, on the other side, prevents consistent compliance with the IA Standards clearly defining IA functioning and represent, at the same time, the basis for assessment of IA quality. With the aim of assessing effectiveness and efficiency of IA activities and identifying possibilities for its improvement, the IA Standards require adoption and maintenance of Programmes for Ensuring and Improvement of Internal Audit Quality which, *inter alia*, encompass permanent monitoring of IA effects by IAUs Heads⁵⁰, as well as external assessment by a qualified, independent external assessor or external team of assessors at least once in every five years. IA External assessment may yield results only in completely staffed IAUs, i.e. in IAUs with the Head of IAU and one or more internal auditors. In addition, it is not easy to ensure quality performance of IA in understaffed IAUs, both during strategic and annual audit engagements planning and during their implementation in the manner envisaged by the BiH Law on Internal Audit.

4.5 Overview of methodology application and performance of IAUs in BiH Institutions

Through IAU Annual Reports of IAUs in BiH Institutions and by using recommendations defined in the Manual for Assessment of Public Sector Internal Audit Quality⁵¹ (hereinafter referred to as: “the PEMPAL IA Manual”, CHU MFT performs partial external control of quality of compliance with the IA Methodology and monitors performance of IAUs in BiH Institutions. We would like to note that external quality control

⁴⁹ Pursuant to the Decision on Amendments to the IAUs Decision, BHANSA is obliged to align its Rulebook on internal organisation in part related to IA with relevant IA regulations.

⁵⁰ In addition to constant monitoring of internal audit performance, internal assessments include, in accordance with Internal Audit Standards, periodical self-assessments or assessments by other persons within the organisation with enough knowledge of the internal audit practice.

⁵¹ The PEMPAL IA Manual was issued in 2016 by the Internal Audit Community of Practice (IACOP) of the Public Expenditure Management Peer Assisted Learning (PEMPAL), established by the World Bank Group in 2006 encompassing 21 countries and available at www.pempal.org.

as exercised by CHU MFT does not substitute the prescribed occasional external assessments to be performed by qualified independent external assessors, as prescribed by the BiH Law on Internal Audit and the IA Standards. As CHU MFT represents a crucial part of the IA System and a body responsible for preparation and implementation of the IA Methodology, monitoring of the quality of activities of IAUs performed by CHU MFT may not be deemed as entirely independent. However, the same is performed with the aim of providing guidelines and recommendations for improvement of IAUs operations.

IAUs submit their IAU Annual Reports to CHU MFT, including information on IA organisation, description of activities and conditions for employment in IAUs, together with the part of their Rulebooks on internal organisation related to IA, signed IA Charters and IA Agreements and other relevant information. CHU MFT uses submitted information to monitor alignment of the existing IA organisation, including its authorisations, responsibilities, the method of approving plans and reporting, together with relevant IA regulations regulating this area in BiH Institutions, and thus whether functional independence of IAUs has been achieved.

Likewise, in their IAU Annual Reports, IAUs submit their work plans approved by Heads of BiH Institutions, as well as information on performed IAs and information on compliance with regulations during IA. Through analysis of this information, CHU MFT acquires a certain insight in methods of operation and performance of IA and its alignment with the prescribed IA Methodology, Standards, the Code of Ethics and other IA regulations, as well as on IA effects and quality.

On the basis of reports on CPE of internal auditors in IAUs and received requests submitted by IAUs for recognition of training as CPE, CHU MFT monitors fulfilment of obligations by internal auditors in terms of professional improvement and acquiring knowledge and skills in the area defined in CPE Regulations. CPE Regulations define methods of fulfilment of the CPE obligation of internal auditors in BiH Institutions in order to ensure improvement of quality of the services they provide through maintenance of the level of expertise and their further professional development.

The following Table gives information on compliance and adherence to the prescribed IA Methodology, the Code of Ethics and IA Standards during IA performed by internal auditors in IAUs in BiH Institutions. In addition, it provides information on implementation of internal and external quality assessment and cooperation of IAUs with AOI.

Table 6

Ordinal no.:	Name of the IAU	Operations in accordance with the IA Manual	Compliance with the IA Standards	Compliance with the Code of Ethics	Internal quality assessment	Monitoring of the IA engagement	External quality assessment	Cooperation with AOI	Comment
1	PABiH IAU	YES	YES	YES	YES	YES	NO	YES	-
2	MFT C IAU	YES	YES	YES	YES	YES	NO	YES	-
3	MD IAU	YES	YES	YES	Partially*	YES	NO	YES	*Head of the IAU continuously monitors IA performance without periodical assessment
4	MCT IAU	YES	YES	YES	Partially*	YES	NO	YES	*Head of the IAU continuously monitors IA engagement
5	BP IAU	YES	YES	YES	YES	YES	NO	YES	-
6	SIPA IAU	YES	YES	YES	YES	YES	NO	YES	-
7	ISA IAU	YES	YES	YES	Partially*	YES	NO	YES	*Head of the IAU prepares a plan of activities, manages and continuously monitors activities of the IAU
8	ITA IAU	YES	YES	YES	YES	YES	Partially*	YES	*In the IMF Report on technical assistance, the efficient function of IA is stated as a positive side of the ITA
9	MHRR IAU	YES	YES	YES	YES	YES	NO	YES	-
10	MD IAU	YES	YES	YES	YES	YES	NO	YES	-
11	MCA IAU	YES	YES	YES	YES	YES	NO	YES	-
12	MoFTER IAU	YES	YES	YES	Partially	YES	NO	YES	-
13	MFA IAU	*Partially	*Partially	*Partially	NO*	NO*	NO	YES	*The IAU is understaffed resulting in inability to consistently comply with the IA regulations.
14	SJA IAU	YES	YES	YES	Partially*	NO*	NO	YES	*The position of the Head of the IAU, who ensures monitoring of the engagement and is responsible for internal assessment, is vacant.
15	IDDEEA IAU	YES	YES	YES	Partially*	NO*	NO	YES	*Only the position of the internal auditor is occupied, which prevents complete implementation of internal assessment and monitoring of the engagement. Performed partially, through self-assessment.
16	DCPB IAU	YES	YES	YES	NO*	NO*	NO	YES	*The position of the Head of the IAU is vacant. Tasks are performed by a single internal auditor.
17	BHANSA IAU	YES	YES	YES	YES	YES*	NO	.52	*Only one internal auditor is employed and monitoring is performed to the extent allowed
18	MS IAU	Established in November 2018							

The previous Table shows that internal auditors in all IAUs, with the exception of MFA IAU⁵³ complied with and adhered to the prescribed IA Methodology, Standards and the Code of Ethics in their IA engagements.

However, when it comes to internal quality assessment and constant monitoring of audit engagement which, in accordance with the IA Standards and the prescribed IA Methodology is to be performed by the Head of the IAU, the previous Table shows that the stated procedures were not performed or were

⁵² Pursuant to the Law on BHANSA, audit is performed by an independent agency. AOI is not obliged to perform audit in BHANSA.

⁵³ Due to the unsettled organisational status of IA pending adoption of the Rulebook on internal organisation aligned with the IA regulations (November 2018) and lack of staff, IA in MFA was not able to completely comply with the IA Methodology, Standard and the Code of Ethics

partially performed in certain IAUs. Namely, according to data submitted in IAU Annual Reports, completely staffed IAUs performed, either partially or in its entirety, assessment of quality and monitoring of audit engagement in the RP in accordance with the IA Methodology determined in the IA Manual, while IAUs which have only one internal auditor or only the Head of the IAU were not able to consistently comply with the prescribed procedures.

Implementation of constant monitoring of the audit engagement and internal assessment imply continuous monitoring of activities and IA effects, as well as periodical self-assessment in order to ensure compliance with the Code of Ethics and the IA Standards, thus ensuring achievement of goals, required quality of activities and improvement of IA activities. Implementation of stated activities of evaluation of compliance and achieved effectiveness and efficiency of IA activities, as well as identification of possibilities for improvement implies preparation of a programme of quality assurance and improvement (hereinafter referred to as: "the QA Programme") which, in accordance with the IA Standards, is to be implemented by the Heads of IAUs. Records on monitoring IA engagement and performed internal assessment are documented and kept, while Heads of BiH Institutions are informed on the results of assessments after its completion⁵⁴.

Out of 17⁵⁵ IAUs, only ITA IAU submitted a report to CHU MFT on performed internal assessment in accordance with the QA Programme established in this IAU. It had a partial external assessment of IA quality. Namely, in the IMF Report on technical assistance and on the basis of performed assessment of indirect taxation process management system (TADAT Performance Assessment Report, May 2018), the efficient function of IA was listed as one of the positive aspects of ITA.

We would like to note that an external quality assessment, in accordance with the IA Standards, must be performed by a qualified, independent external assessor or external team of assessors.

The total of 16⁵⁶ IAUs in BiH Institutions which performed IA in the RP cooperated with auditors in AOI through exchange of audit documentation and audit reports and support in implementation of given recommendations for the PIFC System improvement.

On the basis of stated information, we would like to emphasize that, in the understaffed IAUs, internal auditor engagements were not monitored and directed in the appropriate manner. This is necessary in order to ensure achievement of goals, quality assurance and professional development of staff, as envisaged in relevant regulations.

External assessment of IA activities is performed once in every five years in accordance with the IA Standards. Accordingly, under the EU IPA Programme for BiH entitled "Improvement of Public Internal Financial Control in Bosnia and Herzegovina" to be implemented in the following two-year period, CHU MFT plans to adopt regulations to improve and further regulate the area of IA external quality control.

Table 7 shows an overview of IAUs which performed audit in BiH Institutions (stated in Tables 2, 3 and 4) in 2018, including information on the total number of performed audits and recommendations given by IAUs, the total number of IA days per IAU and audited segments.

⁵⁴ In accordance with the IA Standards, results of external and periodical internal assessments are reported after their completion, while the results of continuous monitoring are reported at least once a year.

⁵⁵ MS IAU is not included since it was established in November 2018.

⁵⁶ MS IAU established in November 2018 and BHANSA IAU were not included (in the latter, in accordance with the Law on BHANSA, IA is performed by an independent agency. AOI is not obliged to perform audit in BHANSA.

Table 7

Ordinal no.:	Name of the IAU	Number of staff in the IAU	Number of final IA reports In 2018	Number of given IA recommendations in 2018	Number of the IAU audit days ⁵⁷	Number of the IAU audit days per report (column (7))	Segments audited in 2018
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	PABiH IAU	2	10	44	335	33	-Cash operations -Official vehicles management -Prevention of corruption -Contracted and other special services -Budget planning and execution -Public procurement and contracts implementation monitoring -Follow-up audits
2	MFT IAU	4 ⁵⁸	7	29	296 ⁵⁹	42	-Establishment of an IT subsystem -Managing the property owned by BiH Institutions -Procurements-monitoring implementation of concluded contracts -Financial internal control-implementation of integrity improvement measures
3	MD IAU	4	16	34	745	47	-Planning of budget expenditures -Acceptance and issuance of oil and oil derivatives -Cash operations -Salaries and remunerations accounting -Implementation of contracts for maintenance of vehicles -Representation and gifts -Requests for diplomatic and service passports, visas and other documents -Follow-up audits
4	MCT IAU	2	11	54	443	40	-Public procurements -Salaries and remunerations accounting -Preparation of planning and study documents for the Adriatic-Ionian Highway through BiH -Follow-up audit
5	BP IAU	2	7	21	370	53	-Allowance for transportation to and from work -Surveillance of the state border -Public procurements -Allowance for separate maintenance and accommodation and
6	SIPA IAU	2	5	8	356 ⁶⁰	71	-Contracted and other services -Cash operations -Follow-up audits
7	ISA IAU	2	5	10	400	80	-Fixed assets -Cash operations -Contracted and other services -Follow-up audits
8	ITA IAU	4	8	44	746 ⁶¹	93	- Indirect taxes liabilities management - Forced collection procedure - Budget planning and execution - Consultative services to the expert group for establishment and development of financial internal control in the Indirect Taxation Authority - Follow-up audits
9	MHRR IAU	1	6	12	205	34	Grants to non-government organisations involved in protection of human trafficking victims Budget planning and execution Follow-up audits

⁵⁷ Data obtained from IA Annual Reports

⁵⁸ MFT IAU was not operating in full capacity in 2018

⁵⁹ Ibid

⁶⁰ Number of audit days is smaller than planned due to sick leaves.

⁶¹ Ibid.

Ordinal no.:	Name of the IAU	Number of staff in the IAU	Number of final IA reports In 2018	Number of given IA recommendations in 2018	Number of the IAU audit days ⁶²	Number of the IAU audit days per report (column)	Segments audited in 2018
10	MJ IAU	2 ⁶³	7	27	240 ⁶⁴	34	-Human resources management -Follow-up audits
11	MCA IAU	2	5	24	412	82	-Salaries and remunerations -Public procurements -Follow-up audits
12	MoFTER IAU	2	5	45	376 ⁶⁵	75	-Budget planning and execution -Salaries and remunerations -Human resources management
13	IAU of the MFA	1	13	63	- ⁶⁶	-	-Contracted services -International legal aid in criminal and civil matters -Travelling expenses -Conclusion and deposition of international agreements -Bilateral agreements -Fulfilment of obligations of the Ministry and Diplomatic and Consular Missions from the SAA -Revisions of Diplomatic and Consular Missions of BiH in Aman, Athens, London, Brussels, Zagreb and Doha -Follow-up audit
14	SJA IAU	1	8	17	203	25	-Employment relations -Internal security-anti-robbery security system -Own revenues -Utilisation of human resources -Follow-up audits
15	IDDEEA IAU	1	6	13	202	34	-Public procurements-Maintenance of equipment -Recording and refunding of revenues - Follow-up audits
16	DCPB IAU	1	3	10	208	69	-List and description of assets and liabilities -Public procurements -Follow-up audit
17	BHANSA IAU	1	3	-	102	34	-Achievement of rights for accommodation and separate maintenance allowance -Follow-up audits
18	MS BiH	1	Established in November 2018				
TOTAL IN 2018		35	125*	455	5,639⁶⁷	45	*73 regular, 47 follow-up and 5 <i>ad hoc</i> audits
TOTAL IN 2017		33	119**	386	5,115⁶⁸	43	*64 regular, 52 follow-up and 3 <i>ad hoc</i> audits

Data in the previous Table show that in 2018, 17 IAUs performed in total 125 audits and gave 455 recommendations. In comparison with 2017, when 17 IAUs prepared 119 reports and gave in total 386

⁶² Data obtained from IA Annual Reports

⁶³ MCA IAU was not operating in full capacity in 2018.

⁶⁴ The number of audit days of the Head of IDDEEA IAU is calculated from mid-November 2018 (from the day of returning to work after maternity leave).

⁶⁵ The number of audit days of the internal auditor in MoFTER IAU is calculated from February 2018 when the person was appointed as the internal auditor in this IAU.

⁶⁶ Due to organisational status of IA pending adoption of the new Rulebook on internal organisation (November 2018), there was a possibility for engagement of internal auditors for tasks which are not related to IA and the audit days were not planned in accordance with IA Regulations.

⁶⁷ The total number of days spent on IA and other IA activities for 16 IAUs, in accordance with data submitted in their reports which also clarify divergences from the planned audit days. This number does not include data for the MS IAU because it was only established in November 2018, and MFA IAU which did not plan/monitor achievement of audit days due to the possibility of engagement in activities other than IA.

⁶⁸ The total number of days spent on IA and other IA activities for the total of 16 IAUs, in accordance with data submitted in their reports. MFA IAU did not submit information on the achieved number of audit days due to non-alignment of activities of AOI with IA regulations.

recommendations, this represents increase in the number of average performed audits by a single IAU. With the average of 7 audits per IAU in 2017, this represents an increase to 7.4 audits per IAU in 2018. The average number of recommendations given in one audit remained unchanged in the previous two years and amounts to 5.8 recommendations⁶⁹. In the RP, the total of 32 internal auditors⁷⁰ participated in 125 performed audits, implying that the average number of performed audits per internal auditor in 2018 is 3.9. In comparison with 2017, when the total of 33 auditors performed 119 internal audits, or 3.6 audits per internal auditor, there was a slight increase, i.e. by 8.3%, in the number of performed IAs per internal auditor.

The previous Table shows data on the total number of audit days for each IAU in 2017 and 2018. This number represents the total number of working days that the IA staff spent in performing audits and other IA activities and it does not include mandatory education of internal auditors or other types of leaves. In the IAU performing IA in multiple institutions, this number pertains to all BiH Institutions in which they performed IA. The number of audit days of IAUs is different from IAU to IAU, due both to the difference in the number of IA staff and the number of days spent in mandatory training, as well as different duration of leaves of internal auditors.

Similarly, the previous Table also shows information on the average number of audit days of IAUs per audit for 2017 and 2018. This number also differs between the IAUs, and in addition to the number of IA staff and leaves from work, it depends on the total number of performed audits. The number of audits performed by IAUs during one year is influenced by a number of circumstances: type of audit (follow-up audits are shorter than regular or *ad hoc* audits), complexity of the audited segment, scope of audit, acquired experience of internal auditors, performance of same audits in other BiH Institutions (for IAUs which perform IA in multiple institutions), occupation of positions of Heads of IAUs and internal auditors and alike. In IAUs in which there is no Head of the IAU, i.e. MFA, SJA, IDDEEA, DCPB, BHANSA and MS, internal auditors act as Heads of these IAUs related to preparation of IA plans and periodical reports, while the Head of MHRR IAU acts as an internal auditor because this position is vacant.

4.6 Continuing professional education of internal auditors in BiH Institutions

CPE represents a process in which internal auditors in BiH Institutions maintain the level of their competency and quality of services they provide and thus develop and upgrade the procedures by acquiring new knowledge through further professional development.

BiH Law on Internal Audit and the IA Charter define the obligation of Heads of IAUs to ensure high level of quality of IA activities and to ensure necessary training of internal auditors, including preparation and submission of annual plans of education to the Head of the BiH Institution for approval and ensuring its implementation.

The obligation of CPE is defined by the following regulations:

- IA Standards:
 - Standard 1230-*Continuing Professional Development* prescribes that internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.
 - Standard 1210-*Proficiency* prescribes that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.
- The Code of Ethics
One of the principles of the Code of Ethics is competency of internal auditors which, *inter alia*, defines that internal auditors provide only services for which they possess the knowledge, skills and experience and that they must continuously enhance their competencies, effectiveness and quality of their services.

⁶⁹ Follow-up audits determining whether recommendations given in the previous period were implemented are not included.

⁷⁰ Internal auditor in MS IAU was not included since the person started their activities in November 2018; one internal auditor from MJ IAU and one internal auditor from MFT IAU were not included due to maternity leave.

- Training and Certification Programme
It defines the CPE obligation, topics and areas as subject-matters of CPE trainings, types of CPE and the obligation of reporting and recording CPE in IAUs. CHU MFT is obliged, in accordance with the Training and Certification Programme, to maintain a CPE Register of Internal Auditors in BiH Institutions on the basis of IAUs' reports.
- The CPE Decision
 - It defines the method of scoring of every kind of CPE defined by the Training and Certification Programme, the minimal number of points that internal auditors in BiH Institutions must achieve annually, as well as the method of recognition of CPE trainings organised by domestic and/or international providers of services/training.
- The CPE Instruction in BiH Institutions
It defines the method of applying for CPE training, documents required for recognition of trainings as CPE, the method of keeping CPE records in IAUs and reporting to CHU MFT on CPE.

The stated regulations also define that CHU MFT prepares and/or organises trainings related to topics and areas as subject-matters of CPE training and provides internal auditors in BiH Institutions with information on trainings organised individually or in cooperation with domestic or international providers of services/training. On the basis of requests submitted by IAUs, CHU MFT gives, also in accordance with the stated regulations, opinion on fulfilment of conditions for scoring and acceptability of training organised by domestic and/or international providers of training as CPE in BiH Institutions.

In the RP, in accordance with CPE Regulations, CHU MFT organised training for internal auditors in BiH Institutions on topics determined by the Training and Certification Programme and issued the total of 93 opinions on fulfilment of conditions for scoring of trainings organised by other organizers.

During the same period, CHU CC organised training attended by internal auditors from the public sector of RS and FBIH, in addition to internal auditors in BiH Institutions.

Out of the total number of internal audit staff in BiH Institutions (37⁷¹), 32⁷² members of IAU staff were obliged to CPE. This obligation was not met only by the Head of MoFTER IAU due to sick leave.

We would like to note that, in accordance with the IA Standards, the Code of Ethics and CPE Regulations, internal auditors are obliged to enhance their knowledge, skills and other competencies through CPE in order to effectively perform their professional obligations.

In case internal auditors do not possess sufficient knowledge and skills necessary for quality performance of their responsibilities, it might be questioned whether engagements of internal auditors were performed in an expert manner and whether they contribute to management and control mechanisms by giving recommendations and consultations related to the audited activities.

4.7 Improvement of the IA System

The 2018 IA Consolidated Annual Report offered, in addition to an overview of the state of legal framework of IA in BiH Institutions, cumulative data on IAs performed in the RP. The effects of IA included in the 2018 IA Consolidated Annual Report reflect the quantity and quality of recommendations given by IAUs in view of improvement of operations and functioning of BiH Institutions. Likewise, the effects of IA are reflected in the actual progress in establishment and development of PIFC and IA, as well as in the

⁷¹ This number also includes 2 members of the staff in the Division for Development of the IA System of the CHU MFT.

⁷² In accordance with CPE Regulations, newly employed internal auditors are not subjected to the CPE obligation in the first year of their employment; the same applies to internal auditors to whom CHU MFT granted a release from the CPE obligation for a certain period. In 2018, 5 internal auditors in total were not obliged to comply with the CPE obligation.

quality of consultative services provided to managements of BiH Institutions.

The results of IA operations are reflected in giving quality recommendations, on one side, and in implementation of given recommendations and improvements of the FMC System in BiH Institutions which have established the IA function, on the other side. In the following period, further progress is expected in this area through increasing the scope and quality of audit reports and recommendations given by internal auditors, as well as through further establishment and strengthening of the IA System and its capacities in BiH Institutions.

Heads of IAUs are expected to pay special attention to improvement of the planning process, implying directing IA activities to areas in which weaknesses of internal controls are identified on the bases of comprehensive analysis of operations and risk management, but also improving IA efficiency and effectiveness through increase in the number of planned and performed IAs. Improvements in the planning process represent a precondition for increase of the IA contribution to achievement of goals of BiH Institutions and better alignment of operations and regulations which may be achieved through better utilisation of audit resources, increase in the number of audited segments and recommendations given for removal of identified weaknesses.

Additional IA effects will heavily depend on the staffing efficiency and effectiveness and organisational alignment of the understaffed IAUs, or IAUs that are completely staffed but not in accordance with relevant regulations. In addition, these will also depend on the readiness of the management and internal auditors to achieve further progress in development of IA in BiH Institutions, as well as of the entire PIFC concept.

An important task and a challenge before CHU MFT and IAUs in the following period will surely be activities related to introduction and increased quality control of IA operations according to requirements stated in the IA Standards.

The present document shows that additional progress related to the IA System establishment and development has been achieved in the previous period. This is reflected in publication and implementation of regulations defining the IA System and functional establishment of the IA System by CHU MFT on one side, and in the quality of IA in BiH Institutions, on the other side. However, the degree of improvement in this area achieved by BiH Institutions might be even higher, thus providing additional encouragement to developments in this area and approximation of BiH and its PIFC System to the European values.

5. Information on implementation of the PIFC Development Strategy 2016 – 2018 in part related to internal audit

5.1 The basics of the PIFC Development Strategy 2016 – 2018

The PIFC Development Strategy 2016-2018 was adopted in December 2016. It represents commitment of BiH institution to further the PIFC system, IA and the internal financial controls system development so as to achieve their stronger integration into the BiH Institutions management processes. The said integration should result in a visible contribution of these systems in ensuring responsibility of Heads of BiH Institutions and increased legality and regularity in spending of budget funds and achievement of goals for which they were intended. Starting from the current state, defined weaknesses and difficulties and recommendations of the EC, the PIFC Development Strategy 2016-2018 determines further development goals and activities that will approximate PIFC to EU standards and practice.

It envisages BiH Institutions PIFC development in stages during the 2016-2018 period, depending on the state and the need for development in the budget system. The first phase focuses on strengthening legality and regularity controls the need for which is obvious due to weaknesses in budget planning and execution, accounting and public procurement which represent key areas for establishment and development of FMC in BiH Institutions. The second stage focuses on creation of preconditions for management development directed toward goals and results. This includes development of medium-term

planning and connecting medium-term planning with the budget cycle through programme planning. Programmes with the function of connecting medium term goals and budget funds will create a basis not only for monitoring legality and regularity, but also for assessment of cost-effectiveness, effectiveness and efficiency in budget funds spending.

In terms of IA, the PIFC Development Strategy 2016-2018 defines that the internal audit development should be directed toward achievement of the following:

- a) Improvement of regulations and internal audit methodology,
- b) Internal audit capacities strengthening,
- c) Internal audit performance and quality increase,

Achievement of goals and measures envisaged in the PIFC Development Strategy 2016-2018 directly contributes to complying with requests related to further EU integration of BiH. Quality internal control systems also represent a crucial factor for achievement of accessibility and usage rights in terms of EU pre-accession funds. Implementation of the PIFC Development Strategy 2016-2018 should improve the quality of public funds management through alignment with EU standards and practices, thus ensuring enhanced transparency and responsibility and reduction in the number of negative opinions stated by external audit.

5.2 Implementation of the PIFC Development Strategy 2016 – 2018

The integral part of the PIFC Development Strategy 2016-2018 adopted by CoM BiH at its 87 session held on 29 December 2016 is the Action Plan (hereinafter referred to as: “the PIFC Development Strategy 2016-2018 AP”) including goals and measures for implementation of activities, the expected implementation period, principal bodies in charge of activities, success indicators and sources of financing the determined measures and activities.

The PIFC Development Strategy 2016-2018 envisages preparation of operative annual action plans (OAPs) for each calendar year of the defined period. The content of the OAP is derived from the PIFC Development Strategy 2016-2018 AP and represents an overview of activities to be taken with the aim of implementation of the envisaged measures. In accordance with the stated obligations, CHU MFT prepared the 2018 OPA precisely defining activities and the period for implementation of determined goals of further public finance management.

The PIFC Development Strategy 2016-2018 also defines that CHU MFT will report to CoM BiH on its implementation under the framework of regular IA Consolidated Reports and Consolidated Annual Reports on the Financial Management and Control System (hereinafter referred to as: “FMC Consolidated Annual Reports”).

In accordance with the goals determined in the PIFC Development Strategy 2016-2018 and its AP, CHU MFT achieved the following:

- a) Improvement of regulations and internal audit methodology⁷³,
Within this goal, the PIFC Development Strategy 2016-2018 AP defines the following measures: updating of IA by-laws, amendments to the IA Manual with IA Standards and preparation of regulations IA quality inspection.
During 2018, CHU MFT adopted the new IA Charter (*Official Gazette of BiH*, 30/18) aligned with the IA Standards. Likewise, in 2018, CHU MFT prepared the new Framework Agreement on Internal Audit Function on BiH Institutions in accordance with the new IA Standards, published in the *Official Gazette of BiH*, 38/18 (hereinafter referred to as: “the new IA Framework Agreement”). In December 2018, in accordance with the Training and Certification Programme of the CC CHU No.: KO-12/16 of 26 December 2016, CHU MFT adopted amendments to the Training and Certification Programme published in the *Official Gazette of BiH*, 89/18.
Activities related to collection and analysis of material for preparation of the IA Methodology started in 2018. In 2018, the working group for preparation of the Draft IA Manual was established, comprising representatives of the CHU MFT, IAUs Heads and internal auditors from six IAUs.

⁷³ The PIFC Development Strategy 2016-2018-Goal 5

Together with the experts of the Ministry of Finance of the Netherlands, on the basis of the Bilateral Cooperation Agreement concluded between the Ministry of Finance of the Netherlands and MFT BiH, the Working Group prepared the Draft IA Manual which will be tested and adapted in the following period. The test to be conducted prior to publication of the IA Manual implies implementation of a pilot audit in one of BiH Institutions under the supervision of Dutch experts. Updating of the existing IA Manual and preparation of IA quality control is planned by 1 October 2020, under the framework of the EU Project entitled "Improvement of Public Internal Financial Control in BiH-PIFC III" financed from IPA Fund.

b) IA capacities strengthening⁷⁴

The PIFC Development Strategy 2016-2018 defines the following measures under this goal: establishment of IAUs with a minimal number of staff in accordance with regulations and strengthening of capacities of internal auditors; supervision over implementation and development of training programmes for certification of internal auditors, CPE and training of internal auditors in BiH Institutions through workshops to be held in cooperation with professional associations with which CHU MFT concluded memorandums of cooperation.

In 2018, CHU MFT received one request for approval of a rulebook on internal organisation in part related to IA. The approval was given within the defined deadline. Likewise, in the RP and on the basis of requests received from IAUs, CHU MFT gave expert opinions to two BiH Institutions related to using additional forms in the audit process. Within implementation of this goal and the defined measures, CHU MFT also provided clarifications related to implementation of certain provisions of regulations defining the method of cooperation with AOI, adoption of the IA Charter, release from the CPE obligation, ensuring protection and observation of the "ownership" of information obtained by IA, implementation of certain procedures such as implementation of the Document Management System (DMS) and alike.

In accordance with regulations on CPE in BiH Institutions, CHU MFT organised trainings for internal auditors in BiH Institutions in October, on topics related to relevant provisions of CPE. Thirty-six internal auditors from BiH Institutions participated in these trainings. Under the framework of the CC CHU, CHU MFT participated in organising the Conference on Internal Audit in BiH Public Sector with the aim of CPE, which was attended by internal auditors from all three levels of governance in BiH. The stated Conference was attended by 52 members of the staffs of BiH Institutions.

On the basis of submitted requests of IAUs and internal auditors, CHU MFT produced 93 opinions on recognition of trainings organised by other providers as CPE in BiH Institutions. In accordance with the IA Employment Rulebook, CHU MFT processed, in the RP, 29 requests for verification of certificates of internal auditors acquired in professional associations or Entity CHUs.

c) Internal audit performance and quality increase⁷⁵

Within this goal, the PIFC Development Strategy 2016-2018 AP defines the following measures: directing IA activities toward more particular topics and complex areas; support in implementation of horizontal and vertical audits; development of cooperation between IA and management; development of cooperation between CHU MFT and AOI; CPE and IA quality assessment and support of CHU MFT to education, training and CPE.

Through its Division for the IA System Development, CHU MFT was in constant contact and had a proactive relationship with internal auditors in BiH Institutions in 2018. Thirteen formal meetings with IAUs Heads and internal auditors in BiH Institutions were held. Different topics were discussed, as well as measures stated for implementation of this goal. Discussion was also held on IA activities and its orientation toward more particular topics and complex areas in accordance with risk management assessments. Assistance was also provided during performance of IAs and development of cooperation between IA and management, as well as between internal auditors and auditors in AOI. CPE and support of CHU MFT to education, training and CPE are the topics which were also discussed in meetings held with representatives of IAUs and valued through processed requests and 93 opinions issued by CHU MFT on this issue.

6. Conclusions of the Council of Ministers of Bosnia and Herzegovina

⁷⁴ The PIFC Development Strategy 2016-2018-Goal 6

⁷⁵ The PIFC Development Strategy 2016-2018-Goal 7

6.1 Implementation of conclusions of the Council of Ministers of Bosnia and Herzegovina

At its 142 session held on 15 May 2018, during their consideration of the 2017 IA Consolidated Annual Report, CoM BiH adopted the following conclusions:

- 1) The CHU MFT is instructed to continue to develop the BiH Institutions the IA System and to provide support to institutions establishing IAUs in order to establish an operative and functional internal audit structure in BiH Institutions;
- 2) Institutions for which the obligation of establishing the IAU is prescribed are instructed to cooperate with MFT and ensure funds and complete procedures of employment of internal auditors in order to comply with plans for IA establishment and functioning in BiH Institutions;
- 3) Heads of IAUs and BiH Institutions are instructed to consistently implement, in accordance with the BiH Law on Internal Audit and IAUs Decision, the prescribed procedures regulating the method and implementation of the IA Charter and the IA Agreement;
- 4) Heads of IAUs are instructed to consistently implement the prescribed IA Methodology, especially in terms of mandatory preparation of strategic (three-year) and annual IA work plans and the method and procedure of their preparation, as well as preparation of consolidated strategic and annual work plans of IAUs providing IA services in multiple BiH Institutions;
- 5) Heads of BiH Institutions are instructed to cooperate with IAUs Heads and internal auditors in monitoring of implementation of recommendations given in previous IA reports with the aim of establishing whether particular activities were taken and whether the desired goals were achieved and to inform CHU MFT on the results of monitoring;
- 6) MFT and CHU MFT are instructed to submit this Report to PABiH;

Immediately after adoption of the stated conclusions, CHU MFT informed all BiH Institutions and IAUs on the same in order for these to take necessary actions and measures for their implementation.

In preparation of the 2018 IA Consolidated Annual Report, CHU MFT requested all BiH Institutions and IAUs to submit, in addition to IAU Annual Reports, information on implementation of the stated CoM BiH conclusions.

On the basis of information received from BiH Institutions and IAUs and activities taken by the CHU MFT, we provide the following overview of implementation of the stated conclusions:

- 1) In accordance with its competencies and capacities, CHU MFT continued with its proactive engagement in implementation of commenced activities related to the IA System development in BiH Institutions. This is also reflected in publication of regulations in this area, as well as in education of internal auditors and monitoring of IA activities and activities taken by BiH Institutions obliged to establish IAUs in accordance with relevant regulations.

The following documents that are significant for the field of internal audit and relate to CoM BiH conclusions, were published in the RP: the IA Charter and the IA Agreement aligned with the IA Standards in BiH Institutions⁷⁶. During the RP, activities were taken in view of preparation of a new IA methodology to define the method and procedures to be followed by internal auditors in BiH Institutions⁷⁷.

In implementation of regulations related to establishment of IAUs in BiH Institutions, CHU MFT received 17 requests for alignment of Rulebooks on internal organisation. All these requests and proposals of were considered in detail in accordance with competencies of CHU MFT and from the aspect of their alignment with applicable regulations. After alignment of Rulebooks with the stated

⁷⁶ The Decision on adoption of IA Standards in BiH Institutions regulates adoption and implementation of International Standards for Internal Audit Professional Practice.

⁷⁷ The Working Group was established for preparation of the Draft IA Manual, comprising appointed representatives of CHU MFT and IAUs. It is being prepared in cooperation with experts of the National Academy of Economics and Finance of the Ministry of Finance of the Netherlands under the Bilateral Cooperation Agreement between MFT BiH and the Ministry of Finance of the Netherlands.

regulations, CHU MFT gave its consent in accordance with the BiH Law on Internal Audit and thus ensured conditions for continuation of the procedure of amendments to individual Rulebooks on internal organisation in part related to IA. Up to and including 31 December 2018, the total of 15 BiH Institutions completed the prescribed procedure of amending their rulebooks.

By the end of the RP, 12 IAUs in BiH Institutions occupied the position of the Head upon consent given by CHU MFT in accordance with the BiH Law on Internal Audit and on the basis of fulfilment of prescribed conditions.

With the aim of further development of the IA System and operations of IAUs, CHU MFT, in accordance with its competencies, actively works on education of internal auditors through organising trainings, issuing of opinions on acceptability of trainings organised by other providers, holding meetings with internal auditors, submitting responses to inquiries received from internal auditors on the method of implementation of regulations and methodology.

With the aim of securing funds necessary for employment of internal auditors in BiH Institutions, CHU MFT separately informed MFT on the conclusion of CoM BiH and their instruction to secure the funds and complete procedures of employment of internal auditors so as to take necessary actions during the process of preparation of the budget of BiH Institutions.

Since 2011, CHU MFT has been regularly preparing IA Consolidated Annual Reports based on IAU Annual Reports. The IA Consolidated Annual Report is submitted to CoM BiH after approval of the MFT Minister. In addition to detailed information on activities taken under each obligation for which it is responsible, CHU MFT reports, through the IA Consolidated Annual Report, on the IA state, activities and issues in BiH Institutions and proposes improvement measures in view of conclusions of CoM BiH.

- 2) In total 10 BiH Institutions which have not completely established and staffed their IAUs and to which the conclusion of CoM BiH on cooperation with MFT in securing funds and completing employment procedures informed CHU MFT on the following during preparation of the present document:
- Two BiH Institutions, MFA and IDDEEA completed procedures of amending and adopting their Rulebooks on internal organisation in part related to IA that are aligned with IA regulations and started the procedure of appointing Heads of their IAUs.
 - MS established their IAU⁷⁸ on the basis of the applicable (the old) Rulebook on internal organisation which is not aligned with relevant regulations in part related to IA. MS started the procedure of amending and adopting a new Rulebook on internal organisation aligned with IA regulations.
 - DCPB, in which the position of the internal auditor is also occupied on the basis of the applicable (the old) Rulebook on internal organisation that is not aligned with IA regulations informed CHU MFT that they are currently obtaining necessary approvals for amendments to the Rulebook on internal organisation⁷⁹.
 - MHRR⁸⁰ and SJA⁸¹ informed CHU MFT that their budgets for 2018 and 2019 envisage funds for staffing their IAUs, but the same was not completed in the RP.
 - BHANSA⁸² informed CHU MFT that they are currently preparing a new Rulebook on internal organisation.

⁷⁸ The position of the internal auditor is occupied.

⁷⁹ In January 2019, the opinion of MFT was obtained and the actions are being taken accordingly.

⁸⁰ Only the position of the Head of the IAU is occupied.

⁸¹ Only the position of the internal auditor is occupied. SJA informed CHU MFT that due to the increased volume of activities and the need for employment in other organisational units, the Head of the IAU was not employed and that they will try to occupy this position in 2019.

⁸² Only the position of the internal auditor is occupied on the basis of the applicable Rulebook on internal organisation which is not aligned with IA regulations.

The three remaining understaffed IAUs⁸³, i.e. MJ IAU, MFA IAU and MoFTER IAU, did not inform CHU MFT whether their budgets envisage funds for employment.

- 3) Through annual reports of IAUs, CHU MFT was informed that the total of 70 institutions signed the Internal Audit Charter and the Agreement on Internal Audit Function with IAUs. It was also informed that IAUs consistently apply prescribed procedures regulating the method and implementation of the Internal Audit Charter and the Agreement on Internal Audit Function.

The IA Charter was not signed by the following BiH Institutions: BiH Presidency⁸⁴, the Constitutional Court of BiH, the Court of BiH and the Prosecutor's Office of BiH⁸⁵. CHU MFT is trying to find a solution for establishment and functioning of an independent IA in these three BiH Institutions.

MS IAU established in November 2018 informed CHU MFT that they plan to sign the IA Charter and the IA Agreement with four BiH Institutions in which they are charged with performing IA⁸⁶.

- 4) All IAUs which performed IA in BiH Institutions in the RP informed CHU MFT that internal auditors completely comply with the prescribed IA Methodology, except MFA⁸⁷ in which the preconditions for complete implementation of the IA Methodology were not met. However, when it comes to internal quality assessment as an integral part of the prescribed IA Methodology in BiH Institutions and representing one of the activities for which the Head of the IAU is responsible, different responses from IAUs were received on its implementation during the RP.

Likewise, all IAUs prepared strategic and annual IA plans in compliance with the IA Methodology. Out of seven IAUs which performed IA in the RP and which are obliged to prepare a consolidated strategic and annual plan with the purpose of adequate planning of activities of IA in BiH Institutions and monitoring of their implementation, the same were not prepared only by MFT IAU⁸⁸.

- 5) Through IAU Annual Reports, CHU MFT was informed that all audited BiH Institutions monitored implementation of recommendations and whether particular activities were taken and desired results achieved, except for recommendations given in one IA encompassing three BiH Institutions⁸⁹. IAUs also submitted to CHU MFT data on the degree of implementation of recommendations given in previous IA reports, as detailed in the IA Consolidated Annual Report.
- 6) MFT and CHU MFT submitted the 2017 IA Consolidated Annual Report to the PABiH in accordance with the conclusions of CoM BiH.

6.2 Proposal of conclusions of the Council of Ministers of Bosnia and Herzegovina

Pursuant to Articles 24 and 25 Of the BiH Law on Internal Audit, CHU MFT Prepared the Annual

⁸³ All three BiH Institutions have Heads of their IAUs and one internal auditor, while the Rulebook on internal organisation envisages two internal auditors in each of these BiH Institutions.

⁸⁴ IA services are provided by MFT IAU in accordance with the IAUs Decision.

⁸⁵ MJ IAU is charged with performing IA in the Constitutional Court of BiH, the Court of BiH and the Prosecutor's Office of BiH.

⁸⁶ In addition to MS, in accordance with the IAUs Decision MS IAU is charged with performing IA in the following BiH Institutions: the Agency for Forensic Investigations and Expertise, the Agency for Education and Professional Training and in the Service for Foreigners' Affairs of BiH.

⁸⁷ Due to an unaligned description of responsibilities, the Office/Inspectorate which provided IA services only partially since it performed other consular tasks in MFA. Complete implementation of the IA methodology in MFA will be possible after establishment and staffing of the IAU in accordance with regulations.

⁸⁸ It is stated that it was not considered necessary to prepare consolidated plans since the plan included regular audit in only one institution.

⁸⁹ In 2017, MFT IAU performed one audit in CoM BiH GS, MFT and CSA. The status of recommendations given in this audit is not determined.

Consolidated Internal Audit Report and proposes the CoM BiH to adopt, upon consideration, the following

CONCLUSIONS

1. CoM BiH supports measures and activities of CHU MFT related to improvement and development of the IA System in BiH Institutions, as well as measures and activities taken by BiH Institutions establishing their IAUs, with the aim of establishing an operative and functional IA structure in BiH Institutions;
2. BiH Institutions for which the obligation of establishing their IAUs is prescribed, are hereby instructed to cooperate with MFT in order to secure funds and implement procedures of employment of internal auditors in 2019;
3. MFT is hereby instructed to prevent, to the extent permitted by its competencies, non-dedicated spending of budget funds approved for IA establishment and functioning;
4. Heads of IAUs and internal auditors are hereby instructed to completely adhere to the methodology and instructions of CHU MFT and to timely report CHU MFT;
5. CHU MFT is hereby instructed to ensure, through the PIFC 3 Project financed by the IPA Programme for BiH, applicative software solutions enabling planning, performance and reporting on IA processes based on the best audit practices so as to create conditions for introduction and improvement of a complete IA quality control in BiH Institutions.
6. MFT and CHU MFT are hereby instructed to submit the present document to PABiH;

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Sarajevo, 29 March 2019

DIRECTOR

Ranko Šakota, m.p.