



**BOSNIA AND HERZEGOVINA  
MINISTRY OF FINANCE AND TREASURY**

**CENTRAL HARMONISATION UNIT**

**2018 CONSOLIDATED REPORT ON THE SYSTEM OF FINANCIAL MANAGEMENT  
AND CONTROL IN THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA**

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## 1 Summary

Pursuant to Article 33f, paragraph (2), point h) of the Law on Financing of the Institutions of Bosnia and Herzegovina (hereinafter referred to as: “BiH Law on Financing”)<sup>1</sup>, 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 and submit to the Council of Ministers of Bosnia and Herzegovina (hereinafter referred to as: “CoM BiH”) annual consolidated reports on the financial management and control system (hereinafter referred to as: “FMC Consolidated Annual Reports”) in the institutions of Bosnia and Herzegovina (hereinafter referred to as: “BiH Institutions”). Responsibilities and deadlines related to annual reporting on the FMC System in BiH Institutions are defined in more detail in the Rulebook on annual reporting on the financial management and control system in the institutions of Bosnia and Herzegovina (hereinafter referred to as: “the FMC Annual Reporting Rulebook”).

The purpose of FMC Consolidated Annual Reports is to inform CoM BiH, in terms of FMC development in BiH Institutions, on the degree of establishment, progress, state and activities taken in the RP and future plans.

Pursuant to Article 4 of the FMC Annual Reporting Rulebook, all BiH Institutions are obliged to submit their annual reports on FMC (hereinafter referred to as: “FMC Annual Reports”) to CHU MFT by 15 of February of the current year for the previous year. Form, content and instructions for preparation of FMC Annual Reports are determined by CHU MFT for every reporting year. All BiH Institutions are obliged to submit their FMC Annual Reports. Heads of BiH Institutions are responsible for accuracy of information contained in the submitted FMC Annual Reports. Pursuant to Article 5 of the FMC Annual Reporting Rulebook, CHU MFT submits FMC Consolidated Annual Reports to CoM BiH through MFT BiH by 31 March of the current year for the previous year. FMC Consolidated Annual Reports are based on data contained in FMC Annual Reports submitted to CHU MFT by BiH Institutions. FMC Annual Reports represent one method of monitoring and assessing the FMC System in BiH Institutions. In addition to FMC Annual Reports, monitoring and assessment are conducted through continuous monitoring of internal audit (IA).

The 2018 FMC Consolidated Annual Report is the fourth consolidated report prepared and submitted to CoM BiH by CHU MFT.

Within the prescribed deadline, 51 BiH Institutions submitted their 2018 FMC Annual Reports.

The following BiH Institutions submitted their 2018 FMC Annual Reports after the prescribed deadline:

1. Agency for Anti-Doping Control of BiH (AADC)
2. Public Procurement Agency of BiH (PPA)
3. Agency for Postal Traffic of BiH (APT)
4. Agency for the Prevention of Corruption and Coordination of the Fight against Corruption (APCCFC)
5. Agency for Education and Professional Training (AEPT)
6. Personal Data Protection Agency of BiH (PDPA)
7. State Investigation and Protection Agency (SIPA)
8. Border Police of BiH (BP)
9. Institute for Intellectual Property of BiH (IIP)
10. Institute for Metrology of BiH (IM)
11. Missing Person Institute of BiH (MPI)

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<sup>1</sup> *Official Gazette of BiH*, 61/04, 49/09, 42/12, 87/12 and 32/13).

12. Institute for Standardisation of BiH
13. Commission for Concessions of BiH (CConc)
14. Ministry of Justice of BiH (MJ)
15. Ministry of Foreign Trade and Economic Relations of BiH (MoFTER)
16. Prosecutors' Office of BiH (PO)
17. Plant Health Protection Administration of BiH (PHPA)
18. General Secretariat of the Council of Ministers of BiH (CoM BiH GS)

Regardless of their delayed submission, FMC Annual Reports of these 18 BiH Institutions were taken into consideration and processed with the purpose of preparing the 2018 FMC Consolidated Annual Report.

The following BiH Institutions did not submit their 2018 FMC Annual Reports up until preparation of the 2018 FMC Consolidated Annual Report:

1. Foreign Investment Promotion Agency of BiH (FIPA)
2. Directorate for Economic Planning (DEP)
3. State Regulatory Agency for Radiation and Nuclear Safety (SRARNS)
4. Ministry of Defence (MD)
5. Ministry of Foreign Affairs (MFA)
6. Institute for Accreditation of BiH (BATA)

Pursuant to Article 33d, paragraph (4) of the BiH Law on Financing, Heads of BiH Institutions are charged with preparing and submitting FMC Annual Reports to CHU MFT in the manner and within deadlines defined by the FMC Annual Reporting Rulebook.

We would like to remind that, on 19 July 2017, on the occasion of considering the 2016 FMC Consolidated Annual Report, the Parliamentary Assembly of Bosnia and Herzegovina (PABiH) adopted the following conclusion: **"The House of the Peoples of the Parliamentary Assembly of Bosnia and Herzegovina hereby instructs the institutions of Bosnia and Herzegovina to submit their annual reports on the financial management and control system in the institutions of Bosnia and Herzegovina to the Central Harmonisation Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina without delays, by 15 February of the current year for the previous year, at the latest. Institutions of Bosnia and Herzegovina which submit their annual reports on the financial management and control system in the institutions of Bosnia and Herzegovina late, without justification, will be called to a hearing."**

Failure to comply with legal provisions and prescribed deadlines for submission of FMC Annual Reports reflect lack of management responsibility and commitment to establishment of a cost-effective, efficient and effective internal controls (IC) system.

In comparison with 2017, analysis of data contained in 2018 FMC Annual Reports shows inconsiderable progress in 2018. However, this is still insufficient in terms of characteristics of a quality FMC System.

The Table below represents comparison of few questions and answers contained in the Questionnaire on self-assessment of the financial management and control system related to the FMC methodology framework (hereinafter referred to as: "the FMC Methodology") (hereinafter referred to as: "the FMC Questionnaire").

Question posed in FMC Annual Reports	Answer 2017	Answer 2018
Number of BiH Institutions which submitted their FMC Annual Reports	75	69

Number of BiH Institutions which appointed a person/working group charged with FMC	61	53
Number of BiH Institutions which updated their Internal Organisation Rulebooks and systematisation of positions (hereinafter referred to as: "Internal Organisation Rulebooks) in order for the description of positions of Heads of BiH Institutions to include the obligation of FMC and risk management systems establishment and development under their competencies	8	40
Number of BiH Institutions which prepared FMC establishment and development action plans (APs)	44	42
Number of BiH Institutions which identified the risks pertaining to achievement of goals, i.e. key business processes	53	41
Number of BiH Institutions which established their risk registers	46	53
Number of BiH Institutions in which the principle of separation of responsibilities is established	64	62
Number of BiH Institutions which have internal procedures in place for preparation of medium-term plans	38	33
Number of BiH Institutions documenting key business processes	60	62
Number of BiH Institutions which prepared a map of business processes	52	58
Number of BiH Institutions reporting to the highest-level management on the FMC System functioning	42	43

It is difficult to assess FMC progress in 2018 in comparison with 2017 since the 2017 FMC Consolidated Annual Report was based on 75 FMC Annual Reports of BiH Institutions, while the 2018 FMC Consolidated Annual Report is based on 69 FMC Annual Reports of BiH Institutions.

FMC is one of the public finance management (PFM) reform areas. Majority of questions in Chapter 32- Financial control of the Questionnaire of the European Commission (EC) relate to the legal framework, management responsibility for functioning of the components of the Framework of the Committee of Sponsoring Organizations of Tradeway Commission (hereinafter referred to as: "the COSO Framework") and alike.

Since the establishment of CHU MFT, preconditions and foundations for FMC development in BiH Institutions were created through adoption of a legal framework. Within its competency, CHU MFT adopted by-laws to be used by BiH Institutions as a tool for FMC establishment and development. Trainings, workshops and other types of technical support are continuously organised in BiH Institutions. The next stage is implementation of all prescribed actions representing sound practices and recommendations of European Union (EU) competent bodies. During this phase of FMC development, support and assistance are also expected under the EC Project entitled Improvement of Internal Controls in the Public Sector (hereinafter referred to as: "the PIC Improvement Project"), the implementation of which started in October 2018.

The 2017 FMC Consolidated Annual Report was adopted by CoM BiH at its 142 session held on 15 May 2017. At the proposal of CHU MFT, CoM adopted the following conclusions:

1. CHU MFT is instructed to publish the 2017 FMC Consolidated Annual Report on the web page of MFT and to inform all BiH Institutions on the availability of the document and conclusions of CoM BiH;
2. BiH Institutions are instructed to continue FMC establishing and developing and especially implementing measures and activities defined in the Operative Annual Action Plan for Implementation of the Strategy of Development of the Financial Management and Control System in the Institutions of Bosnia and Herzegovina 2016-2018 (hereinafter referred to as: "the 2016-2018 FMC Strategy OAP");
3. BiH Institutions which did not implement conclusions of CoM BiH related to FMC Consolidated Annual Reports for previous years are instructed to continue activities with the aim of implementing the adopted conclusions;
4. MJ is instructed to submit to CoM BiH a proposal for amendments to the Decision on classification of positions and criteria for description of positions in the institutions of Bosnia and Herzegovina (Official Gazette of BiH, 30/13) (hereinafter referred to as: "the Decision on Classification of Positions in BiH Institutions") so as to include, in the description of responsibilities of heads at all levels of management, the obligation of FMC and risk management systems establishment and development under their competencies;
5. DEP and MFT are instructed to include the obligation of definition of the risk management methodology in medium term and programme planning processes, in the process of upgrading the medium term planning by-laws;
6. MFT is instructed to cooperate with CHU MFT and prepare and submit to CoM BiH a proposal for amendments to the Form of the Statement on Responsibility for achieving the Goals of the BiH Institution (hereinafter referred to as: "the Responsibility Statement") in part related to FMC establishment and development, with the aim of monitoring implementation of CoM BiH and PABiH conclusions on FMC improvement;
7. MFT and CHU MFT instructed to submit the 2017 FMC Consolidated Annual Report to PABiH.

In accordance with the CoM BiH conclusions, CHU MFT published the 2017 FMC Consolidated Annual Report on the web page of MFT, [www.mft.gov.ba](http://www.mft.gov.ba) under the CHU MFT and the Central Harmonisation Units Coordinating Committee (CHU CC) section.

Likewise, MFT submitted the 2017 FMC Consolidated Annual Report to PABiH.

**In 2018, CHU MFT implemented the following activities under their competency related to FMC:**

- Adoption of the Operative Action Plan for Implementation of the Strategy for Development of the Internal Financial Controls System in the Institutions of Bosnia and Herzegovina 2018 (hereinafter referred to as: "the 2018 PIFC Strategy OAP");
- Adoption of the Decision on Form and Content of FMC Annual Reports for 2018;
- Adoption and implementation of the Plan and Programme of Financial Management and Control Training in the Institutions of Bosnia and Herzegovina for 2018 (hereinafter referred to as: "the 2018 FMC Training Plan");
- Participation in regional meetings of working groups for preparation of methodology for assessment of FMC quality organised by SIGMA, RESPA and CHU CC;
- Cooperation in the PIC Improvement Project.

More information on CHU MFT activities can be found below.

## 2 Introduction

### 2.1 Regulatory framework

**FMC is a comprehensive system of policies, procedures and activities established by and under the responsibility of Heads of BiH Institutions. FMC is based on risk management** and it provides reasonable assurances that goals of the BiH Institution will be achieved in a correct, cost-effective, efficient and effective manner.

FMC in BiH Institutions is regulated by the BiH Law on Financing. The BiH Law on Financing stipulates the purpose and the aim of FMC, its Methodology, responsibility of Heads of BiH Institutions for FMC establishment and responsibilities of CHU MFT and CHU CC related to FMC.

In accordance with competencies prescribed in the Decision on establishment of the Central Harmonisation Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina (hereinafter referred to as: "CHU MFT Establishment Decision") and Article 33f, paragraph (2) of the BiH Law on Financing, CHU MFT adopted the following by-laws:

- Standards of internal control in the institutions of Bosnia and Herzegovina (Official Gazette of BiH, 61/14) (hereinafter referred to as: "IC Standards");
- Manual for financial management and control in the institutions of Bosnia and Herzegovina (Official Gazette of BiH, 98/14) (hereinafter referred to as: "FMC Manual");
- Guidelines for risk management processes in the institutions of Bosnia and Herzegovina (Official Gazette of BiH, 29/15) (hereinafter referred to as: "Risk Management Guidelines");
- Rulebook on annual reporting on the financial management and control system in the institutions of Bosnia and Herzegovina (Official Gazette of BiH, 77/15) (hereinafter referred to as: "FMC Annual Reporting Rulebook").

**IC Standards in BiH Institutions** are based on the BiH Law on Financing, Guidelines for Internal Control Standards for the Public Sector (hereinafter referred to as: "INTOSAI IC Guidelines") of the International Organisation of Supreme Audit Institutions (INTOSAI) and the Internal Control Standards of the European Commission (hereinafter referred to as: "the IC Standards"). The IC Standards are used by BiH Institutions as the basis for preparation of their internal procedures. BiH Institutions are obliged to update and adopt new internal procedures in view of their alignment with the IC Standards.

**The FMC Manual** is more detailed and represents the basis for easier implementation of IC Standards. The purpose of the FMC Manual is to assist Heads of BiH Institutions and persons charged with FMC in FMC establishment and development. The FMC Manual provides guidelines for establishment of an appropriate IC in BiH Institutions and defines responsibilities for efficient management of budget funds, as well as EU and other international institutions funds.

**Risk Management Guidelines** treat risk methodology, assessment and management in more detail. The aim of the Risk Management Guidelines is to unify the risk management practice and set framework within which each BiH Institution will introduce and develop risk management adapted to its specificities.

**The FMC Annual Reporting Rulebook** defines the unified methodology, procedures and deadlines for FMC reporting with the aim of assessing the degree of the FMC System establishment and quality. It prescribes deadlines for preparation of FMC Annual Reports and FMC Consolidated Annual Reports.

All FMC regulations are published on [www.mft.gov.ba](http://www.mft.gov.ba), under the CHU MFT and CHU CC section.

CHU MFT will regularly update all FMC by-laws pertaining in accordance with the EU sound practice and

recommendations and the degree of FMC establishment and quality.

## **2.2 The purpose of public internal financial control in Bosnia and Herzegovina**

Public internal financial control (PIFC) represents one of the reform areas that BiH is obliged to align, in terms of the legal framework and practice, with sound practices and regulations recommended by the EC. PIFC idea and concept were elaborated by the EC as assistance in understanding and implementation of properly developed and effective control system in the process of EU accession.

PIFC establishment is based on the following international standards: Standards for the Professional Practice of Internal Auditing published by the Chartered Institute of Internal Auditors (hereinafter referred to as: "IIA Standards"), INTOSAI IC Guidelines and EC IC Standards. The system aims at efficient and effective management of budget as well as EU funds.

PIFC establishment and development is one of the obligations of BiH established in Article 90 entitled Audit and Financial Control Cooperation of the Stabilisation and Association Agreement between the European Communities and their Member States (hereinafter referred to as: "the SAA") stating that: "Cooperation between the Parties shall focus on priority areas related to the Community acquis in the field of public internal financial control (PIFC) and external audit. The Parties shall, in particular, cooperate – through elaborating and adopting relevant regulation – with the aim of developing PIFC, including financial management and control and functionally independent IA, and independent external audit systems in Bosnia and Herzegovina, in accordance with internationally accepted control and audit standards and methodologies and EU best practices. Cooperation shall also focus on capacity building and training for BiH Institutions with the purpose of developing PIFC as well as external audit (Supreme Audit Institutions) in Bosnia and Herzegovina, which also includes the establishment and strengthening of central harmonisation units for financial management and control and for IA systems".

**In practice, it is important to understand that the FMC System integrates different areas of operation in order to avoid a misguided perception that FMC is an isolated activity implemented solely for the purpose of formal fulfilment of obligations stipulated in the BiH Law on Financing.** Heads of BiH Institutions are responsible for FMC establishment, implementation and development and for determining rules for efficient, effective and cost-effective spending of available funds.

PIFC establishment in BiH requires coordination and harmonisation in preparation of framework FMC and IA regulations at all levels of governance in BiH. Stated coordination and harmonisation are implemented through CHU CC comprising heads of CHU MFT, the Central Harmonisation Unit of the Ministry of Finance of the Federation of Bosnia and Herzegovina (CHU FMF) and the Central Harmonisation Unit of the Ministry of Finance of Republika Srpska (CHU MF RS).

## **2.3 Legal basis and reporting deadlines**

All BiH Institutions are obliged to prepare and submit their FMC Annual Reports to CHU MFT. The obligation is stipulated in Article 33d, paragraph (4) of the BiH Law on Financing. The FMC Annual Reporting Rulebook regulates establishment of the unified methodology, procedures and deadlines for FMC reporting with the aim of assessing the degree of the FMC System establishment and quality.

CHU MFT prescribed the form and content of 2018 FMC Annual Reports. FMC Annual Reports are conceived as yes/no questionnaires. Questions are grouped by COSO Framework components.

Through their FMC Annual Reports, BiH Institutions inform CHU MFT on FMC System functioning. FMC



Annual Reports are prepared by persons charged with FMC, on the basis of data for the RP, and approved by Heads of BiH Institutions. **Heads of BiH Institutions are responsible for accuracy of data contained in the submitted FMC Annual Reports.**

On the basis of individual FMC Annual Reports, CHU MFT prepares the FMC Consolidated Annual Report for the previous year. FMC Consolidated Annual Reports encompass the period from 1 January to 31 December. The final date for submission of the FMC Consolidated Annual Reports to CoM BiH is 31 March of the current year.

The purpose of FMC Consolidated Annual Reports is to timely inform CoM BiH on FMC activities, progress and future development and CHU MFT activities and the achieved level of alignment of FMC regulations in BiH Institutions and the EU *acquis*.

### **3 Financial management and control system in the institutions of Bosnia and Herzegovina**

#### **3.1 The concept and methodological framework of financial management and control in the institutions of Bosnia and Herzegovina**

PIFC Framework comprises establishment and development of the following three pillars with the aim of reasonable assurance of adequate and effective internal controls:

- Financial management and control;
- Functionally independent and decentralised IA;
- CHU MFT as a MFT administrative organisation.

FMC is implemented through five mutually connected IC components based on COSO Framework<sup>2</sup> comprising:

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

**Control environment** comprises: ethical values, integrity and competence of civil servants, management method and style, planned approach to operations, human resources management, organisational structure with clearly defined authorisations and responsibilities for implementation of activities, defined goals and budget funds management.

**Risk management** comprises: Determining and assessing the possibility of occurrence of risks and their influence taking into account goals of a BiH Institution, taking necessary actions, in particular through FMC implementation with the purpose of risk mitigation, documenting data on risks in Risk Registers, reporting on key risks and risk management activities and possibilities of adoption of a risk management strategy.

**Control activities** comprise: written rules-procedures, approvals, transfer of authorisations and responsibilities, the principle of separation of responsibilities, double signature system, procedures ensuring protection of assets and information from alienation and damages, procedures ensuring collection of receivables, procedures related to creation of contractual obligations, procedures of complete, accurate, correct and regular recording of business transactions, documentation rules, etc.

**Information and communication** comprise: business correspondence, high quality accounting systems,

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<sup>2</sup> Components are determined in INTOSAI IC Guidelines and based on the COSO Framework.

keeping and archiving documents and internal and external communication.

**Monitoring and assessment** comprises: ongoing monitoring, self-assessment and IA.

### **3.2 Competencies of the Central Harmonisation Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Pursuant to CHU MFT Establishment Decision and the BiH Law on Financing, CHU MFT is charged with the following within the FMC System:

- a. Preparation and update of FMC strategic documents and guidelines in accordance with internationally accepted standards, IC Standards and EU practices and regulations;
- b. Preparation of FMC laws and by-laws;
- c. Definition of contents and coordination of the FMC Training Plan;
- d. FMC System assessment;
- e. Analysis and proposals of operative solutions for FMC improvement;
- f. Definition of FMC Annual Reports form and FMC reporting procedures and deadlines;
- g. Monitoring implementation of FMC regulations on the basis of FMC Annual Reports submitted to CHU MFT;
- h. Preparation of FMC Consolidated Annual Reports;
- i. Participation in activities of CHU CC in accordance with provisions of the BiH Law on Financing and BiH Law on Internal Audit in BiH Institutions<sup>3</sup>.

## **4 Assessment of the financial management and control system in the institutions of Bosnia and Herzegovina in 2018**

### **4.1 Financial management and control system development direction-targeted state**

FMC establishment and development are based on the BiH Law on Financing, the INTOSAI IC Guidelines, sound practices and regulations recommended by the EC, implying implementation of sound practices and experiences related to procedures and activities in order to achieve operability and functioning of the system.

Further FMC development direction is defined in the PIFC Development Strategy and is based on integration of PIFC into budget funds management processes. Complete implementation of the PIFC Development Strategy will improve the quality of public funds management through alignment with the EU standards and practices, thus ensuring enhanced transparency and responsibility and reduction in the number of external audit negative opinions. Achievement of goals and measures envisaged in the PIFC Development Strategy directly contributes to complying with requests related to further EU integration of BiH. Quality IC systems also represent a crucial factor for achievement of EU pre-accession funds accessibility and usage rights.

The basic FMC future development aim is to connect medium and budget planning and budget execution in accordance with the goals defined by BiH Institutions, risk management in view of achievement of the defined goals, as well as to measure results through establishing and measuring performance indicators. In order for public funds to be managed efficiently, effectively and cost-effectively, the FMC System needs to be improved, especially when it comes to key budget cycle

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<sup>3</sup> Article 33f of the BiH Law on Financing

processes.

#### **4.2 Activities of the Central Harmonisation Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina in 2018**

##### **The 2018 PIFC Strategy OAP:**

On 8 February 2018, CHU MFT adopted the **Decision on Adoption of the 2018 PIFC Strategy OAP No. 03-1-02-4-57-1/18. The 2018 PIFC Strategy OAP is an integral part of the said Decision.** The 2018 PIFC Strategy OAP defines measures, activities, principal bodies in charge with the activities and deadlines for implementation. CHU MFT is obliged to prepare an OAP for each year encompassed by the PIFC Development Strategy.

As a reminder, the 2016-2018 PIFC Strategy includes the analysis of the current state of PIFC, including analysis of the legal and institutional framework with special emphasis on practical implementation of these systems, goals and further development activities which will approximate PIFC to the EU standards and practices. The AP is an integral part of the PIFC Development Strategy and includes defined goals, measures, principle bodies in charge with the activities, performance indicators, sources of financing and deadlines for implementation of planned measures.

In accordance with the PIFC Development Strategy, CHU MFT is obliged to inform CoM BiH on implementation of measures defined in the PIFC Development Strategy OAP. Reporting is accomplished through regular FMC and IA Consolidated Annual Reports.

##### **Adoption and implementation of the 2018 Training Plan:**

CHU MFT adopted the 2018 FMC Training Plan on 30 May 2018. It is published on the web page of MFT [www.mft.gov.ba](http://www.mft.gov.ba) under the CHU MFT section. CHU MFT adopts FMC Training Plans on the basis of analysis of the need for training in FMC Annual Reports. Training is predominately envisaged for staff charged with FMC, risk management process coordinators, low and medium level management including other civil servants who are charged with FMC establishment and development by Heads of BiH Institutions, as well as civil servants in finance and budget organisational units of BiH Institutions.

The 2018 FMC Training Plan comprises four modules:

- Analysis of FMC state and recommendations for further improvement;
- FMC concept, Methodology and characteristics;
- IA as an instrument of FMC improvement and creation of added value in BiH Institutions;
- Instructions for preparation of FMC Annual Reports.

Representatives of all BiH Institutions are invited to participate in all trainings organised by CHU MFT. CHU MFT organises two day trainings in case of a bigger number of applicants.

**The First Module** was held in June 2018 and it was attended by 56 staff from 52 BiH Institutions. The participants were presented the analysis of the existing FMC with recommendations for its further development. Topics of the Module related to responsibility of Heads of BiH Institutions and Heads of organisational units in BiH Institutions and all other staff for FMC improvement and development and connecting medium term planning to the Budget Framework Document and programme budget, as well as for risk management in planning processes.

**The Second Module** was held in September 2018. The topics of the Module were the FMC concept, Methodology and characteristics. It was intended for Heads of organisational units in BiH Institutions charged with crucial processes who did not have the opportunity to attend FMC trainings organised by CHU MFT. The Module was organised in this manner to enable familiarisation with the FMC purpose,

Methodology and characteristics of as many as possible relevant members of the staff of BiH Institutions. The module was attended by 59 staff from 49 BiH Institutions.

**The Third Module** was held in November 2018. The topic of the Module was IA as an instrument of FMC improvement and creation of added value in BiH Institutions. It especially treated the following: the mandate of IA in BiH Institutions, the purpose, authorisations and responsibility of IA in BiH Institutions, contribution of IA to risk management in BiH Institutions, creation of added value through objective and reasonable assurances, ensuring quality and IA improvement. The Module was intended for the members of the staff of BiH Institutions charged with FMC, risk management process coordinators and other members of the staff who are charged with FMC establishment and development by Heads of BiH Institutions. The training was attended by 52 staff from 43 BiH Institutions.

**The Fourth Module** was held in December 2018. The topic of the Module were instructions for preparation of FMC Annual Reports. It was intended for the members of the staff of BiH Institutions charged with preparation of FMC Annual Reports. The motif for this Module were mistakes identified in preparation of earlier FMC Annual Reports. Incomplete and incorrect data in FMC Annual Reports influence assessment during preparation of FMC Consolidated Annual Reports. The module was attended by 55 staff from 50 BiH Institutions.

#### **Cooperation with the National Academy for Finance and Economics of the Ministry of Finance of the Kingdom of the Netherlands:**

Cooperation with the National Academy for Finance and Economics of the Ministry of Finance of the Kingdom of the Netherlands (hereinafter referred to as: “the Dutch Finance and Economics Academy”) continued in 2018. Activities implemented in 2018 represent continuation of cooperation under the Memorandum of Understanding on Technical Cooperation 2016-2019 between the Ministry of Finance and Treasury of Bosnia and Herzegovina and the Ministry of Finance of the Kingdom of the Netherlands. Experts from the Dutch Finance and Economics Academy held two day seminars on importance of FMC for management responsibility, on risk management and mapping of business processes in MFA and SIPA. CHU MFT chose these two BiH Institutions as pilot BiH Institutions due to budget amounts and complexity of business processes conducted in these BiH Institutions. The said seminars were attended by members of working groups for FMC establishment and development from these two BiH Institutions.

#### **Training in MFA:**

At the request of MFA, CHU MFT organised a one day training on FMC for representatives of this BiH Ministry. The interactive training held in the MFA seat was attended by Heads and Deputy Heads of MFA internal organisational units. The topic of the training was mapping of business processes and implementation of the risk management process. This training reflects CHU MFT’s ongoing practice of providing support to BiH Institutions in terms of FMC establishment and development as prescribed by the BiH Law on Financing.

#### **2017 FMC Consolidated Annual Report:**

CHU MFT prepared the 2017 FMC Consolidated Annual Report in 2018. The 2017 FMC Consolidated Annual Report was prepared on the basis of 2017 FMC Annual Reports submitted to CHU MFT by BiH Institutions. All BiH Institutions submitted their 2017 FMC Annual Reports. The 2017 FMC Consolidated Annual Report was adopted by CoM BiH at its 142 session held on 15 May 2017 including conclusions proposed by CHU MFT.

#### **Publication of the form and content of 2018 FMC Annual Reports:**

CHU MFT adopted the Decision on Adoption of the Decision on Form and Content of 2018 FMC Annual Reports Prescribing the form and content of 2018 FMC Annual Reports. The said Decision on the form and content of 2018 FMC Annual Reports and the FMC Questionnaire form were published on the MFT web page [www.mft.gov.ba](http://www.mft.gov.ba) under the CHU MFT and CHU CC section

#### **Amendments to the Responsibility Statement:**

On the occasion of adoption of the 2017 FMC Consolidated Annual Report, CoM BiH adopted the following conclusion: “MFT is instructed to cooperate with CHU MFT and prepare and submit to CoM BiH a proposal for amendment of the Responsibility Statement in part related to FMC establishment and development with the aim of monitoring implementation of CoM BiH and PABiH conclusions related to the FMC System improvement”. In this regard, representatives of CHU MFT and MFT held a meeting during which it was agreed that CHU MFT will prepare the proposal for amendment to the Responsibility Statement. CHU MFT prepared the proposed amended form and submitted it to MFT for further procedure.

#### **Upgrading of medium term planning by-laws:**

On the occasion of adoption of the 2017 FMC Consolidated Annual Report, CoM BiH adopted the following conclusion: “DEP and MFT are instructed to include the obligation of definition of the risk management methodology in medium term and programme planning processes, in the process of upgrading the medium term planning by-laws.” In view of this conclusion, a working meeting attended by representatives of DEP, MFT and CHU MFT was held. The participants were informed that external evaluation of the medium term programme of activities of CoM BiH will be completed by the end of 2018. The purpose of evaluation was to analyse achievement of goals and efficiency and is to be followed by amendments to regulations related to the procedure of medium term planning. The said evaluation was conducted by the Institute for Economy in Sarajevo who prepared a relevant report. This report was not considered by CoM BiH before preparation of the present document. CHU MFT will be involved in preparation of regulations related to medium term planning in part determining the risk management obligation and methodology in medium term planning processes.

#### **Conference on the FMC System**

A two day conference entitled “Financial Management and Control in the Public Sector of Bosnia and Herzegovina-the Current State and Perspectives” was organised by CHU CC in Teslić in December 2018. The Conference was attended by 210 participants from BiH, RS and FBiH Institutions. On the first day of the Conference, lectures were held by eminent experts in the field of controls and audit of public sector from both BiH Entities, as well as by the representative of the Ministry of Finance of the Republic of Croatia. On the second day of the Conference, representatives of CHU MFT, CHU FMF and CHU MF RS held separate interactive workshops on FMC in BiH, RS and FBiH Institutions.

### **4.3 The current state of FMC development in BiH Institutions**

Within the prescribed deadline, 51 BiH Institutions submitted their 2018 FMC Annual Reports. Eighteen BiH Institutions did not submit their 2018 FMC Annual Reports in time, but these were processed in preparation of the 2018 FMC Consolidated Annual Report. Six BiH Institutions did not submit their 2018 Annual Reports before completion of the present document. **This implies that 69 2018 FMC Annual Reports were processed in preparation of the present document. Delays in submission of FMC Annual Reports significantly impair and slow down preparation of FMC Consolidated Annual Reports. In addition, due to processing of incomplete data, the FMC Consolidated Annual Reports do not reflect the real state of the FMC System in BiH Institutions.**

Based on the submitted 2018 FMC Annual Reports, BiH Institutions may be grouped as follows according to the number of positive answers given in the FMC Questionnaire:

- 67 BiH Institutions have higher percentage of positive answers,
- Two BiH Institutions have higher percentage of negative answers, i.e. their 2018 FMC Annual Reports indicate lower degree of IC establishment and controls.

Although the stated grouping does not reflect the achieved level of FMC quality, it does show readiness and commitment of management structures in BiH Institutions, primarily, to establishment of internal

controls that will contribute to cost-effective, efficient and effective budget funds spending.

An overview of implemented activities on FMC establishment and development by COSO Framework components, based on the analysis of submitted 2018 FMC Annual Reports, is presented below. The higher percentage of positive answers to questions on existence of certain internal procedures, types and scope of prescribed controls does not imply their implementation. IC system can only be improved through consistent implementation of all prescribed and adopted control mechanisms, i.e. through ensuring these mechanisms are not in place only in order to comply with certain requested forms.

## I CONTROL ENVIRONMENT

A precondition and basis for development of quality FMC systems is a controllable and manageable environment. The control environment comprises ethical values, integrity and competence of civil servants, management method and style, planned approach to operations, arranged organisational structure with clearly defined authorisations and responsibilities for implementation of activities, defined goals and budget funds management. It represents the foundation for development of other FMC components and ensures discipline and structure.

### 1 Commitment to integrity and ethics

The segment of ethics and integrity analyses whether members of the staff are familiar with the Code of Ethics for Civil Servants in the Institutions of Bosnia and Herzegovina (Official Gazette of BiH, 49/13) (hereinafter referred to as: "the CS Code of Ethics"), whether a certain organisational unit or a member of the staff in a BiH Institution is responsible for monitoring implementation of the CS Code of Ethics, whether there is a practice of adoption of additional internal instructions or guidelines related to the code of conduct of staff and whether a particular practice of settling conflicts of interest is in place.

**Table 1: Results in the area of ethics and integrity**

COMMITMENT TO INTEGRITY AND ETHICS	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Separate code of conduct at the level of BiH Institution: Is a separate code of conduct at the level of BiH Institution adopted?	47	68	22	32	-	-
Knowledge of content of the CS Code of Ethics: members of the staff are familiar with the CS Code of Ethics	65	94	4	6		
Monitoring compliance of the CS Code of Ethics: an organisational unit or a member of the staff in the BiH Institution is responsible for monitoring implementation of the CS Code of Ethics	52	75	17	25	-	-
Additional internal instructions and guidelines on the code of conduct: the BiH Institution adopted additional internal instructions regulating the code of conduct	36	52	33	48	-	-

Possible conflicts of interest and actions: Conflicts of interest characteristic for the BiH Institution are defined in internal regulations	40	58	29	42	-	-
Measures in case of breach of the CS Code of Conduct are regulated by internal procedures	33	48	36	52	-	-
Measures in case of breach of the CS Code of Conduct are taken	56	81	13	19		

#### ANALYSIS RESULTS:

*In accordance with the submitted data, BiH Institutions implement provisions of the CS Code of Ethics, civil servants are familiar with those provisions and their implementation is monitored. Forty-seven institutions have a separate code of conduct. BiH Institutions are recommended to regulate their codes of conduct and measures in case of breaches of the CS Code of Ethics in more detail.*

#### RECOMMENDATIONS:

- *Internal procedures should be adopted regulating code of conduct of civil servants, settlement of possible conflict of interest and measures in case of failure to comply with the CS Code of Ethics.*
- *Monitoring of implementation of the CS Code of Ethics should be awarded to certain positions or organisational units through rulebooks on internal organisation of BiH Institutions.*

## 2 Planned approach to operations (mission, vision, goals)

Planned approach to operations implies that Heads of BiH Institutions and all staff understand their own mission. It also implies definition of medium term goals, programmes for implementation of the defined goals, ensuring relationship between strategic planning documents and programmes with operative plans and determining risks related to achievement of the defined goals.

In accordance with available resources, BiH Institutions adopt plans defining necessary activities in order to minimise risks of failure in achieving the defined goals.

**Table 2: Results in the area of planned approach to operations**

PLANNED APPROACH TO OPERATIONS	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Mission and vision of the BiH Institution are defined	69	100				
Medium term goals are defined	68	99	1	1		
Medium term goals are published on the web page of the BiH Institution	64	93	5	7		
Medium term work plans are adopted	64	93	5	7		

An internal organisation unit/person responsible for coordination and development of the medium term work	63	91	6	9		
All organisational units are involved in the medium term planning process	64	93	5	7		
Medium term plan includes financial projections	65	94	4	6		
Risk assessment is conducted in the process of medium term planning	25	36	44	64		
Performance indicators for monitoring achievement of medium term goals defined in medium term plans are defined	62	90	7	10		
Monitoring of implementation of the medium term work plan is in place	66	96	3	4		
Goals of defined budget programmes relate to medium term work plan goals	66	96	3	4		
Risks related to implementation of the programme budget are determined	24	35	45	65		
Annual work plans are adopted	67	97	2	3		
Annual work plans define goals of organisational units	61	88	8	12		
Operative goals under the annual work plan are aligned with budget programme and medium term goals	63	91	6	9		
An estimate of financial funds necessary for implementation of the defined goals is included in the annual planning documents	61	88	8	12		
Report on the operations of the BiH Institution is timely prepared and submitted to CoM BiH or other competent	56	81	13	19		
All organisational units are involved in preparation of the budget request of the BiH Institution	58	84	11	16		

## ANALYSIS RESULTS:

***CoM BiH adopted the Decision on the Procedure of Medium Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina (Official Gazette of BiH, 62/14) (hereinafter referred to as: "the Planning, Monitoring and Reporting Decision) and the Instruction on Methodology in the Procedure of Medium Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina (Official Gazette of BiH, 44/15) (hereinafter referred to as: "the Planning, Monitoring and Reporting Instruction). Pursuant to the Planning, Monitoring and Reporting Decision and Instruction, BiH Institutions must determine their medium term goals, adopt medium term plans, and define the mission and vision, performance indicators for monitoring implementation of the defined goals and competency and responsibility of all participants in the medium term planning process. Goals determined in budget programmes must relate to medium term goals, while operative goals in***



*annual work programmes must be aligned with budget programmes. Since laws and by-laws appropriately define planning procedures, preconditions for establishment and development of a planned approach to operations in BiH Institutions are met. Regulations related to medium term and annual planning in this FMC development phase do not include risk management as an important planning segment. In accordance with 2018 FMC Annual Reports, 25 BiH Institutions gave a positive answer to the question on risk management in medium term planning. However, this answer should not be taken lightly since most BiH Institutions state that “a SWOT analysis was performed during preparation of the medium term plan” as clarification (evidence) of the positive answer to this question. SWOT analysis is not equivalent to the risk management process since it determines strengths, weaknesses, opportunities and threats rather than risks. It may serve as the basis for determining risks to be assessed and measures for their mitigation or elimination in accordance with the risk management process guidelines. Budget programme goals are related to medium term plan goals in 66 BiH Institutions. Risks to implementation of the programme budget are determined in 24 BiH Institutions.*

#### RECOMMENDATIONS:

- *It is necessary for the Planning, Monitoring and Reporting Decision and Instruction to determine the obligation of BiH Institutions to determine and assess risks in medium term planning,*
- *To ensure coordination within BiH Institutions so as to connect medium term planning documents and programmes to operative plans,*
- *To align the defined goals and activities with budget funds.*

### 3 Management method and style

Pursuant to the BiH Law on Financing, Heads of BiH Institutions are ultimately responsible for FMC establishment and development and for:

- FMC establishment, implementation and development,
- Preparation of FMC internal regulations and FMC establishment in all organisational units of BiH Institutions and in relation to all programmes and processes implemented in BiH Institutions,
- Ensuring audit trail for all financial and other transactions in the RP, and Preparation and submission of FMC Annual Reports to CHU MFT.

It is important to know that in addition to Heads of BiH Institutions, Heads of organisational units are also responsible for FMC establishment and development in accordance with their competencies and authorisations.

**Table 3: Results in the area of management method and style**

MANAGEMENT METHOD AND STYLE	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Regular expert meetings and discussions are held on:	61	88	8	12		
medium term goals	59	86	10	14		

programmes/projects implementation and achieved results	61	88	8	12		
operation key risks	54	78	15	22		
budget execution	59	86	10	14		
FMC establishment and development	56	81	13	19		
Heads of BiH Institutions are familiar with the obligation of FMC establishment and development	69	100	0	0		

## ANALYSIS RESULTS:

*Management method and style indicate whether the approach of Heads of BiH Institutions is proactive and how they are informed on and involved in all planning processes leading to reporting on implementation of plans. In accordance with data in 2018 FMC Annual Reports, management method and style are positively assessed in majority of BiH Institutions. Expert meetings and discussions on all important FMC segments are regularly held in 61 BiH Institutions, but majority of BiH Institutions do not keep written records accounting for these meetings.*

## RECOMMENDATIONS:

- *Written records of expert meetings should be kept and documented,*
- *Internal procedures should be adopted to regulate the method and dynamics of reporting by Head of BiH Institutions on implementation of annual APs related to FMC establishment and development so as to enable Heads of BiH Institutions to take timely decisions and corrective measures.*

## 4 Organisational structure, authorisations and responsibilities, reporting system

Organisational structure or internal organisation of BiH Institutions should ensure implementation of basic functions resulting from their missions and determined operative goals. Internal Organisation Rulebooks include descriptions of tasks performed in organisational units and determine the scope of operations of organisational units. Internal Organisation Rulebooks define in detail authorisations and responsibilities for all positions in BiH Institutions. Reporting authorisations and responsibilities for each part of the organisational structure should be clear, defined in written and familiar to staff. Heads of BiH Institutions define authorisations and responsibilities for implementation of goals and budget funds management in more detail through adoption of separate decisions. Organisational structure is to be modified and adapted according to operational needs resulting from modifications of legislation, operative goals, operational methods, and alike. In parallel to development of the authorisation and responsibility chain, reporting chains should be developed as well. Higher-level management should be timely informed on successes in achievement of goals and lower level tasks. Accordingly, internal systems of reporting on implementation of the defined goals, budget funds management and alike should be developed as well.

**Table 4: Results in the area of organisational structure, authorisations and responsibilities, reporting systems**

ORGANISATIONAL STRUCTURE, AUTHORISATIONS AND RESPONSIBILITIES, REPORTING SYSTEM	YES		NO		NO ANSWER	
	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
A person responsible for FMC is appointed	53	77	16	23		
A work group responsible for FMC is appointed	60	87	9	13		
Tasks and deadlines are clearly defined to the person/work group in charge of FMC	63	91	6	9		
Obligation of the person/work group in charge of FMC to report to the Head of the BiH Institution on the degree of FNC establishment and state and recommendations for further development is clearly defined	45	65	24	35		
The person/work group in charge of FMC reports to the Head of the BiH Institution on the degree of FNC establishment and state and recommendations for further development is clearly defined	43	62	26	38		
The BiH Institution initiated activities for modifications of the Internal Organisation Rulebook in view of defining obligation of Heads of BiH Institutions at all levels to establish, develop and implement FMC pursuant to the Decision on Amendments to the Decision on Classification of Positions in BiH Institutions	40	58	29	42		
Internal Organisation Rulebook is modified in view of defining obligation of Heads of BiH Institutions at all levels to establish, develop and implement FMC pursuant to the Decision on Amendments to the Decision on Classification of Positions in BiH Institutions	15	22	54	42		
Authorisations and responsibilities for implementation of programme goals/projects and activities are clearly defined	51	74	18	78		
The role of the financial organisational unit is modified in the Internal Organisation Rulebook or through an internal procedure in view of providing coordination and consultative services	16	23	53	77		

Tasks related to FMC are delegated to civil servants	41	59	28	41		
Operations, authorisations and responsibilities are clearly defined for each position	64	93	5	7		
An organisational unit/person responsible for communication with CHU MFT in terms of FMC is in place/appointed	59	86	10	14		
Budget funds under their competency are available to budget programme managers	30	43	39	57		
Programme managers prepared a report on implementation of goals, programmes and projects	44	64	25	36		
Chains of reporting on implementation of goals and budget execution (budget spending by programmes, revenues, liabilities and alike) are in place	55	80	14	20		
Organisational structure of the BiH Institution is regularly modified so as to reflect modifications in regulations and goals of the BiH Institution	32	46	37	54		
Delegation/transfer of authorisations and responsibilities for certain operations to other civil servants is established	58	84	11	16		

#### ANALYSIS RESULTS:

*In accordance with data obtained through 2018 FMC Annual Reports, a person charged with FMC is appointed in 53 BiH Institutions, while 60 BiH Institutions have established an FMC working group. The process of amending Internal Organisation Rulebooks in view of defining obligation of Heads of BiH Institutions at all levels to establish, develop and implement FMC pursuant to the Decision on Amendments to the Decision on Classification of Positions in BiH Institutions was initiated in 45 BiH Institutions, while 15 BiH Institutions have completed the process. At the proposal of CHU MFT, CoM BiH adopted the conclusion instructing BiH Institutions to amend their Internal Organisation Rulebooks so as to delegate obligations to Heads of BiH Institutions in view of FMC establishment and development and risk management under their competency. The reason behind the CoM conclusion lies in the misconception in BiH Institutions that FMC is the obligation of only those members of staff and organisational units in charge of finance. Establishment and implementation of new ICs and procedures contribute to more cost-efficient, efficient and effective budget funds spending and thus to a more quality FMC System.*

#### RECOMMENDATIONS:

- *A person/working group in charge of FMC in BiH Institutions should be appointed and stronger support of management of BiH Institutions should be provided to persons charged with FMC.*
- *Internal Organisation Rulebooks of BiH Institutions should be modified so as to include the obligations of Heads at all levels to establish, develop and implement FMC and risk management under their competencies,*
- *Tasks related to FMC should be clearly delegated to all staff members.*

- *Internal documents should determine the obligation of persons charged with FMC to report to the highest-level management*

## 5 Human resources management

Human resources management represents one of the important areas of FMC development. It encompasses activities related to: Determining competencies and skills related to each position, development of skills necessary to improve operative efficiency, preparation of training plans and records on completed training.

**Table 5: Results in the area of human resources management**

HUMAN RESOURCES MANAGEMENT	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Human resources organisational unit is established	28	41	41	59		
Training plans, including financial management training, are prepared	49	71	20	29	-	-
Records of training for each staff member are established and are updated	55	80	13	19	-	-
Staff members are trained in the						
Medium term planning	54	77	15	22		
Budget preparation	54	77	15	22		
Risk management	60	86	9	13		
Procurement and contracting	62	89	7	10		
Accounting systems	55	80	14	20		
Irregularities and frauds	42	63	27	39		
Human resources management	56	84	13	19		
Information on training of each civil servant is an integral part of one of the reports submitted to the Head of the BiH Institution	55	80	14	20		
The BiH Institution ensures incentives for exceptional performance	64	93	5	7		
The BiH Institution takes disciplinary measures and corrective activities in case of poor performance	55	80	14	20		

## **ANALYSIS RESULTS:**

*Upon analysis of data included in 2018 FMC Annual Reports, it is evident that 49 BiH Institutions include FMC training in their training plans. Records on completed training are kept in 55 BiH Institutions. Human resources management is a continuous process which demands cyclic activities relating to development and improvement of competencies.*

## **RECOMMENDATIONS:**

- *Training plans should include training in the area of FMC, in particular for Heads of organisational units charged with key business processes and for civil servants who are members of FMC working groups,*
- *Records on completed training should be established and kept for each staff member so as to assess and monitor training results,*
- *Incentive measures (material and non-material) for exceptional performance should be ensured.*

## **II RISK MANAGEMENT**

Risk is a probability of an event that could impact implementation of goals of an institution. Risk management defines the entire process of determining, assessing and monitoring risks to implementation of the goals of BiH Institutions and taking necessary actions to mitigate those risks, in particular through the FMC System. Risk management encompasses activities related to management, planning and decision-making process development. Risk management is a responsibility of Heads of BiH Institutions.

### **1 Determining and analysing risks to implementation of goals of BiH Institutions, determining and analysing changes that could impact the IC system**

Determining risks implies determining the most significant risks and taking necessary risk management actions. In this regard, a person charged with coordination of activities in the process of establishing risk management, as well as persons responsible for risk identification and collection of risk data in all organisational units, should be appointed. Likewise, these should be registered in Risk Registers. In order to achieve the purpose of risk management, medium term goals of BiH Institutions should be connected and aligned with the goals defined in annual work plans (programmes) of BiH Institutions and their organisational units.

**Table 6: Results in the area of determining and analysing risks to implementation of goals of BiH Institutions, determining and analysing changes that could impact the IC system**

DETERMINING AND ANALYSING RISKS	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Risks that could impact implementation of the following are determined:						
Medium term goals	41	59	28	41		
Programmes/projects/activities goals	45	65	24	35		
Goals in the annual work programme	44	64	25	36		
Key business operations goals	60	87	9	13		
Risk probability and impact are assessed	55	80	14	20		
Risks are stated in a written form and contained in the following documents:						
Planning documents (strategic documents/multi annual capital investment programmes/annual work programmes)	39	57	30	43		
Risk assessment form	56	81	13	19		
Risk Registers established in accordance with the Risk Management Guidelines	53	77	16	23		
Risk Register is updated in 2018	27	39	42	61		
A system of reporting to the Head of BiH Institution on monitoring the key risks is in place	37	54	32	46		
The total number of BiH Institutions which submitted reports on risks their Heads of BiH Institutions in 2018	32	46	37	54		
Person charged with coordination of activities on establishment of a risk management process	47	68	22	32		
Persons charged with collection of risk data in organisational units of BiH Institutions are appointed	40	58	29	42		
A risk management strategy is adopted	27	39	42	61		
Changes to the internal and external environment, including fraud and corruption risks are monitored and stated in the risk management strategy	23	33	46	67		

#### ANALYSIS RESULTS:

***FMC System is based on the risk management process. Risk management in the process of FMC establishment and development is reflected in the direct connection between planning and decision-making processes. Risk management based on the established information and communication systems contribute to implementation of control activities. Risk management is the least developed FMC component in BiH Institutions. If we consider the fact that the entire FMC System is based on risk***

*management, we can conclude that the FMC System has not yet been established in a satisfactory manner and it does not provide assurance that budget funds are used in a cost-effective, efficient and effective manner. Sixty BiH Institutions performed risk assessment in view of business processes, while 55 BiH Institutions performed risk assessment in view of risk probability and impact. Forty-one/forty-four BiH Institutions determined risks in view of medium term goals/programmes/determined goals. Risk Registers are established in 53 BiH Institutions, which represents a progress in comparison with 46 Risk Registers in BiH Institutions in 2017. Risk Registers are regularly updated in 27 BiH Institutions. However, establishment of a risk register is not the aim in itself. Risk registers should provide information on risks to be particularly taken into account in establishment of appropriate internal controls. Risk responses should be integral parts of internal procedures in order to enable reasonable assurance that the determined goals will be achieved. A system of key risks reporting and monitoring is in place in 32 BiH Institutions, while 47 BiH Institutions appointed a person charged with coordination of activities in the establishment of risk management processes.*

#### **RECOMMENDATIONS:**

- *A person should be appointed charged with coordination of activities in the establishment of risk management processes in accordance with the Risk Management Guidelines.*
- *Risks potentially threatening implementation of goals in medium term and annual work plans of BiH Institutions and goals of business operations should be determined,*
- *Risk assessment should be performed in view of probability and impact,*
- *Risk Registers should be established and updated annually, at the least,*
- *A system of key risks reporting and monitoring should be established.*

### **III CONTROL ACTIVITIES**

Control activities comprise procedures and measures taken by BiH Institutions with the purpose of risk mitigation and implementation of determined operative goals. The purpose of control activities is to ensure legality and regularity of operations, cost-effective, efficient and effective management of revenues, expenditures, assets and liabilities. Control activities are dynamic and susceptible to changes and must be developed as responses to external factors, risks, changes in priorities, technical achievements, organisational relations and alike, and are modified at the managements' initiative or as a response to internal and/or external audit findings and recommendations. Control activities should be economically justified, i.e. costs of control activities should not exceed their benefit. They have to be documented and consistently implemented by all the staff members.



# 1 Implementation of control activities through policies and procedures

**Table 7: Results in the area of control activities implemented through procedures**

IMPLEMENTATION OF CONTROL ACTIVITIES THROUGH POLICIES AND PROCEDURES	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Internal procedures for medium term plan preparation and implementation are in place	33	48	36	52		
Internal procedures for budget preparation and execution are in place	63	91	6	9		
Internal procedures for business events and operative transactions recording are in place	67	97	2	3		
Internal procedures for the procurement and contracting process are in place	68	99	1	1		
Internal procedures for asset (tangible and intangible) management are in place	58	84	11	16		
Internal procedures for collection of own revenues are in place	24	35	11	16	34	49
Internal procedures for the process of refunding unreasonably spent or wrongly paid budget funds are in place.	25	36	44	64		
Internal procedures for keeping and archiving business correspondence and documents are in place	62	90	7	10		
Internal procedures for preventing and detecting irregularities and frauds are in place	65	94	4	6		
Internal procedures for keeping and maintaining personal dossiers are in place	52	75	17	25		
Internal procedures for control and use of seals are in place	65	94	4	6		
Internal procedures for protection of personal data are in place	60	87	9	13		
Internal procedures for incentive measures and bonuses for exceptional performance are in place	67	97	2	3		

Internal procedures regulate key business processes	53	77	15	22	1	1
Written procedures clearly define authorisations, responsibilities, deadlines and control mechanisms for each activity	55	80	14	20		
Written procedures take into consideration risks relating to each activity	42	61	27	39		
An organisational unit or a person in the BiH Institution are appointed to which irregularities and frauds may be reported	63	91	6	9		
Internal procedures are regularly updated	69	100	0	0		
Members of the staff are familiar with internal procedures	69	100	0	0		
Mechanisms for monitoring implementation of internal controls are in place	35	51	33	48	1	1

#### ANALYSIS RESULTS:

***Analysis of 2918 FMC Annual Reports shows that not a single key business procedure is regulated by an internal procedure in all BiH Institutions. Only 33 BiH Institutions have an internal procedure in place regulating the medium term planning process. Budget preparation and execution is regulated by an internal procedure in 63 BiH Institutions. Questions on internal procedures in this part of the FMC Questionnaire relate to business processes performed in all BiH Institutions and all BiH Institutions should have internal procedures in place regulating these processes.***

***Internal procedures are especially important for regulating key business processes. Those processes originate in mandates and missions of BiH Institutions. In order to ensure cost-effective, efficient and effective business processes in compliance with the “value for money” principle, internal procedures must include risks and responses to determined risks. Only 42 BiH Institutions stated that their internal procedures take into consideration risks to implementation of their goals.***

#### RECOMMENDATIONS:

- ***To adopt internal procedures regulating medium term plan preparation and implementation,***
- ***To adopt internal procedures regulating key business processes,,***
- ***Written procedures should clearly define authorisations and responsibilities of all participants in a certain business process and deadlines and control mechanisms for each activity,***
- ***In preparing internal procedures, risks to each activity should be taken into consideration,***
- ***Internal procedures should be regularly updated according to changes in internal and external environment and these should be available to all the members of the staff.***

## 2 The principle of separation of responsibilities

**Table 8: Results in the area of control activities implemented through the principle of separation of responsibilities**

IMPLEMENTATION OF CONTROL ACTIVITIES THROUGH THE PRINCIPLE OF SEPARATION OF RESPONSIBILITIES	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Implementation of the principle of separation of responsibilities is ensured for activities of planning, procurement, contracting, accounting records, payments and controls	62	90	7	10	-	-
The principle of separation of responsibilities is applied to IT systems	34	49	35	51	-	-
Internal document regulates separation of responsibilities	49	71	17	25	3	4
BiH Institutions with less than 30 staff undertake additional controls in order to ensure separation of responsibilities	13	48	14	52		

### ANALYSIS RESULTS:

*In 2018, implementation of the principle of separation of responsibilities is not completely ensured in BiH Institutions. Sixty-two BiH Institutions implement the principle of separation of responsibilities in planning, procurement, contracting, accounting records, payment and control activities. It is a matter of great concern that the principle of separation of responsibilities in IT systems is being implemented in only 34 BiH Institutions. Separation of responsibilities is regulated in internal procedures of 49 BiH Institutions. Out of these 49 BiH Institutions, 23 BiH Institutions ensure separation of responsibility only in their Internal Organisation Rulebooks, however, Internal Organisation Rulebooks are not and cannot be prepared in enough detail and to such extent to encompass every activity in a BiH Institution, and activities cannot be exclusively tied to one position. Authorisations and responsibilities for such actions should be delegated to the members of the staff through internal documents such as internal procedures or decisions. Only 21 BiH Institution ensures separation of responsibilities in this manner. Implementation of the principle of separation of responsibilities should be ensured in all BiH Institutions regardless of their size or the number of staff. Only 50% of BiH Institutions with less than 30 staff ensured implementation of the principle of separation of responsibilities. This principle must be established and implemented in order to ensure that no individual is responsible for initiating, approving, recording and adjusting a single transaction. This prevents one person from being able to make and hide their mistakes, irregularities and frauds in performing their duties.*

### RECOMMENDATIONS:

- To ensure implementation of the principle of separation of responsibilities in business processes in which the risk of mistakes, irregularities or frauds and their concealment is*

higher,

- To ensure implementation of the principle of separation of responsibilities in IT systems so as to ensure that a single person is not charged with all the stages of IT operations (e.g. installation, programming, testing and maintenance).
- To ensure implementation of the principle of separation of responsibilities in BiH Institutions with less than 30 staff.

### 3 Recording and documenting financial and other transactions

Table 9: Results in the area of implementation of control activities through recording and documenting financial and other transactions

IMPLEMENTATION OF CONTROL ACTIVITIES THROUGH RECORDING AND DOCUMENTING FINANCIAL AND OTHER TRANSACTIONS	YES		NO		NO ANSWER	
	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
The procedure of ex-ante controls is documented	61	88	8	12		
The procedure of ex-post controls is documented	57	83	12	17		
Documentation enables monitoring every financial and non-financial transaction from the beginning to the end	65	94	4	6		

#### ANALYSIS RESULTS:

*Existence of an audit trail is still not completely ensured in all BiH Institutions. This implies that the existing internal controls do not ensure documentation of a flow of financial and other transactions so as to enable reconstruction of each activity and its approval. Monitoring of each transaction, from the beginning to the end, is ensured in 65 BiH Institutions. Internal procedures should regulate ex-ante and ex-post controls of all financial and other transactions.*

#### RECOMMENDATIONS:

- To ensure regulation of ex-ante and ex-post controls in internal procedures,
- To ensure documenting of ex-ante and ex-post controls
- To ensure audit trails for all financial and non-financial transactions.

#### 4 Principle of protection of resources/assets

**Table 10: Results in the area of control activities implemented through the principle of protection of resources/assets**

IMPLEMENTATION OF CONTROL ACTIVITIES THROUGH THE PRINCIPLE OF PROTECTION OF RESOURCES/ASSETS	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Only authorised persons may access material, financial and other resources	68	99	1	1		
Asset records are kept through the fixed assets ledger	69	100	0	0		
Inventories are performed in view of reconciliation of the bookkeeping and the actual state	68	99	1	1		
Special inventories are performed	31	45	38	55		
Ex-post controls of dedicated spending of awarded and paid budget funds are performed	25	36	15	22	29	42
Ex-post controls of dedicated spending of awarded and paid budget funds are performed as part of regular operations	34	49	22	32	13	19
Ex-post controls of dedicated spending of awarded and paid budget funds are performed as an ad-hoc assignment	25	36	34	49		
Controls to prevent unauthorised modifications to the existing software are in place	54	78	15	22		
Controls to prevent loss and disclosure of information are in place	53	77	16	23		
Controls to prevent external threats (such as viruses) are in place	55	80	14	20		
Controls to prevent unauthorised physical access to equipment and installations are in place	54	78	15	22		
Disaster recovery plan and procedures are in place to ensure interrupted key operations and protection of key data in case of unexpected circumstances	30	43	39	57		

#### ANALYSIS RESULTS:

*One of the purposes of FCM is to ensure protection of assets and other resources from losses due to poor management, unreasonable spending and usage and irregularities and fraud. Protection of assets or resources is regulated through internal procedures in majority of BiH Institutions in almost*

*all segments, except in the segment of protection of IT systems. Internal procedures should regulate this area in order to prevent unauthorised modifications of the existing software, loss and disclosure of data or unauthorised physical access to assets.*

#### RECOMMENDATIONS:

- *Adequate controls should be established to protect unauthorised access to assets and loss and disclosure of data,*
- *The scope of controls should be in proportion to identified risks, temporary or permanent loss of assets or unauthorised usage or alienation.*

#### IV INFORMATION AND COMMUNICATION

Relevant, timely, complete and accurate information are necessary for cost-effective, efficient and effective management of revenues, expenditures, assets, liabilities and for monitoring implementation of determined goals, achievement of results, analysis of differences, decision-making, and alike. Connecting these data secures information needed in decision-making processes. Quality of decisions depends on the quality information in terms of their timeliness, relevance, accuracy and availability. In addition to information, the system of communications used to transfer such information (from who, to who and how) is also very important.

##### 1 Using information to assist internal control and communication, including goals and responsibilities for internal controls

**Table 11: Results of using information to assist internal control and selection and development of information controls**

INFORMATION AND	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
Key business processes in organisational units are documented	62	90	7	10		
Key business processes ledger/map is prepared	58	84	11	16		
IT security policies, procedures or instructions are in place	37	54	32	46		
Reports on budget execution are prepared for the management	68	99	1	1		
Reports on available resources are prepared for the management	67	97	2	3		
Reports on liabilities are prepared for the management	65	94	4	6		
Reports on receivables are prepared for the management	62	90	7	10		

All organisational units receive information on approved budget funds per programmes /projects/ activities	56	81	13	19		
Timely exchange of necessary information is in place between the staff members (from the highest to the lowest level and vice versa)	57	83	12	17		
Accounting system enables monitoring by programmes	48	70	21	30		
Accounting system enables monitoring costs by costs	42	61	27	39		
Accounting system enables monitoring costs by activities	26	38	43	62		
Accounting system enables monitoring costs by organisational units	26	38	43	62		
Centralised records of all signed contracts and contracted obligations is supported by the IT system	39	57	30	43		
Business systems are supported by IT systems	51	74	18	26		
IT systems supporting certain procedures are mutually integrated	33	48	36	52		
Data transparency is ensured (key documents are published on the web page)	66	96	3	4		

#### ANALYSIS RESULTS:

***Analysis of data in 2018 FMC Annual Reports shows that not all BiH Institutions have inventories of their business processes. Business processes inventory is an important step in which BiH Institutions recognise their business processes contributing to implementation of determined goals and results and at the same time represent the basis for determining and assessing risks that could endanger implementation of the determined goals and results. Not all BiH Institutions created preconditions for risk management, although it is the foundation of the FMC System. Key business processes are documented in 62 BiH Institutions, while business processes maps are prepared in 58 BiH Institutions. In comparison with 2017, when 52 BiH Institutions prepared their business processes maps, this represents an inconsiderable progress. Business systems are considerably supported by IT systems, but are still not sufficiently integrated. IT systems such as PIMIS, BPMIS, ISFU and COPI are completely mutually independent although the business processes supported by these systems are mutually connected.***

#### RECOMMENDATIONS:

- ***To establish inventory and mapping of all key business processes in all BiH Institutions,***
- ***To ensure generation of reports containing complete, reliable and correct operative, financial***

*and non-financial information from IT systems,*

- *To integrate IT systems of certain business processes (PIMIS, BPMIS, ISFU, COIP, etc).*

## V MONITORING AND ASSESSMENT

FMC System monitoring and assessment is the fifth component of the COSO Framework. Monitoring and assessment of internal controls should be directed toward their alignment with regulations and implementations of goals of BiH Institutions. These are performed through the following activities: ongoing monitoring, self-assessment and IA.

### 1 Ongoing monitoring and findings and recommendations of internal and external audit

**Table 12: FMC System monitoring and assessment**

FMC SYSTEM MONITORING AND ASSESSMENT	YES		NO		NO ANSWER	
Criteria	Number of BiH Institutions	%	Number of BiH Institutions	%	Number of BiH Institutions	%
FMC System ongoing monitoring and reporting is established by the top management	47	68	22	32		
2018 FMC Annual Report is prepared	40	58	29	42		
Internal audit in the BiH Institution was performed in the previous year	37	54	32	46		
Recommendations for the IC System are given in the internal audit report	35	95	2	5		
The BiH Institution prepared an action plan for implementation of internal audit recommendations	33	89	4	11		
Recommendations given in the previous year internal audit report are implemented	27	73	10	27		
Implementation of IA recommendations is monitored	44	64	5	7	20	29
Recommendations for IC are given in the external audit report	46	76	23	24		
Recommendations for internal controls given in the external audit report are implemented	35	76	11	24		
Monitoring of external audit recommendations related to FMC is in place	58	84	2	3	9	13
Ad-hoc controls are performed at the order of the Head of the BiH Institution depending on the case	37	54	32	46		



Activities based on ongoing monitoring findings were taken	36	52	33	48		
All members of the staff of the BiH Institution participate in the self-assessment procedure	36	52	33	48		
FMC System establishment and development action plan is adopted	42	61	27	39		
Measures from the 2017 FMC System Establishment and Development Action Plan are implemented	33	48	36	52		

## ANALYSIS RESULTS:

*The level of FMC System ongoing monitoring in BiH Institutions is not satisfactory. Although by-laws adopted by CHU MFT recommended preparation of at least one annual FMC System report management of BiH Institutions, only 40 BiH Institutions prepared this report in 2018. Internal audit was performed in 37 BiH Institutions, while 27 BiH Institutions implemented IA recommendations. Audit Office of the Institutions of Bosnia and Herzegovina (AOI) gave recommendations related to FMC to 46 BiH Institutions and 35 BiH Institutions implemented these recommendations. On 27 April 2016, CoM BiH adopted conclusions instructing BiH Institutions to adopt FMC establishment and development action plans (hereinafter referred to as: "FMC APs"). Likewise, at its 142 session held on 15 May 2017, CoM BiH adopted, inter alia, the conclusion instructing BiH Institutions which did not implement CoM BiH conclusions related to previous FMC Annual Consolidated Reports to continue with the activities on their implementation. FMC APs were adopted in 42 BiH Institutions, while the measures thereunder were implemented in 33 BiH Institutions.*

## RECOMMENDATIONS:

- *Ongoing monitoring should be improved as one of the methods of FMC monitoring,*
- *Heads at all levels of management should be familiar with their obligation to establish and develop FMC in their organisational units,*
- *In accordance with the FMC Manual, it is necessary to establish and develop the system of FMC reporting to Heads of BiH Institutions,*
- *Action plans for implementation of internal and external audit recommendations should be adopted and implementation of recommendations related to FMC improvement should be monitored,*
- *FMC Action Plans should be adopted and their implementation monitored*

## 5 Implementation of the 2018 FMC Strategy OAP

The 2016-2018 PIFC Strategy was adopted by CoM BiH at its 87th session held on 29 December 2016. The 2016-2018 PIFC Strategy includes an AP for each goal and measure determined therein. In accordance with the 2016-2018 PIFC Strategy, CHU MFT is obliged to adopt the FMC OAP defining measures, deadlines and principal bodies in charge of activities. In this regard, CHU MFT adopted the 2018 FMC Strategy OAP.

Pursuant to the 2016-2018 PIFC Strategy and Article 4 of the Decision on adoption of the 2018 FMC Strategy OAP, CHU MFT is obliged to report in a separate chapter of FMC Consolidated Annual Reports

on implementation and measures from the PIFC Development Strategy AP based on indicators of success determined in the 2018 FMC Strategy OAP.

In this view, the report on implementation of the 2018 FMC Strategy OAP is presented below

# The 2018 FMC Strategy OAP

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018	
						Description	Implementation period
1 FMC capacities strengthening	Strengthening of CHU MFT, MFT (Departments for Budget and Treasury) for implementation of the coordinating role in FMC	2016-2018	CHU MFT-MFT	Number of FMC trainings for CHU MFT and BiH Institutions staff Number of BiH Institutions staff trained in FMC	Budget	Adoption and implementation of the 2018 FMC Training Plan was adopted on 30 May 2018. It comprised four modules and it was implemented by the end of 2018. Trainings were predominately envisaged for the staff members charged with FMC, risk management process coordinators, low and medium level management including other civil servants charged with FMC establishment and development by Heads of BiH Institutions, as well as civil servants in finance and budget organisational units.	December 2018
	Defining FMC quality assessment methodology	2016-2018	CHU MFT EU support project staff- other international institutions in the field of regional cooperation in public administration reform	FMC quality assessment method was defined	Budget /IPA funds or other donor funds.	Since implementation of the EC PIC Improvement Project is delayed and that its implementation is envisaged under the Project cooperation, this measure was postponed to 2019. In 2018, CHU MFT representatives participated in working groups regional meetings organised by PEM PAL, SIGMA, RESPA and the CHU CC and discussed the FMC quality assessment method.	December 2018

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018	
						Description	Implementation period
	Analysis of the organisational status, roles and tasks of organisational units in charge of finances in BiH Institutions (pilot BiH Institutions) and proposals of measures for development of their coordinating role for FMC development and cooperation with CHU MFT.	2016-2018	CHU MFT-BiH Institutions	Internal Organisation Rulebooks of BiH Institutions are updated in view of the status of organisational units in charge of finances Proposals of measures for improvement of their coordinating role -pilot BiH Institutions	Budget	Under the FMC Training Plan, CHU MFT held a workshop on the role of organisational units in charge of finances in the FMC establishment process. Recommendations were given for amendments to the Internal Organisation Rulebooks in view of modified role of these units. In the FMC Annual Report form, the question was posed related amendments to the Internal Organisation Rulebooks of BiH Institutions and the role of organisational units in charge of finances for FMC improvement. Only 16 BiH Institutions confirmed that their Internal Organisation Rulebooks were amended to that end.	December 2018
	Organisation of workshops and seminars for staff in charge of FMC and delegated special assignments related to FMC in BiH Institutions	2016-2018	CHU MFT	Number of workshops/seminars Number of trained staff	Budget	Overview of trainings/workshops held under the 2018 FMC Training Plan: - Module 1 was attended by 56 participants from 52 BiH Institutions - Module 2 was attended by 59 participants from 49 BiH Institutions - Module 3 was attended by 52 participants from 43 BiH Institutions - Module 4 was attended by 55 participants from 50 BiH Institutions	December 2018
	Adoption of Guidelines for management responsibility in BiH Institutions	2018	CHU MFT BiH/EU support Project staff	Guidelines for management responsibility in BiH Institutions are adopted	Budget IPA Project funds	Implementation is planned in cooperation with the PIC Improvement Project The IPC Improvement Project is delayed and implementation of the measure is postponed for 2019.	December 2018

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018	
						Description	Implementation period
	Organisation of seminars and workshops for high and medium level management to raise awareness on the importance of management responsibility which should be more efficient and effective	2016-2018	CHU MFT	Number of organised seminars/workshops	Budget	Under Module 1 of the 2018 FMC Training Plan, training was held on responsibility of Heads of BiH Institutions and organisational units and all other members of staff in BiH Institutions for FMC System improvement and development. The conclusion of CoM BiH on amendments to the Decision on Classification of Positions in BiH Institutions so as to include, in the description of responsibilities of Heads at all levels of management, the obligation to establish FMC and risk management within their competencies Module 2 of the 2018 FMC Training Plan treated the FMC idea, purpose and methodology and was intended for Heads of organisational units charged with key business processes in BiH Institutions who previously did not have the opportunity to attend FMC training organised by CHU MFT.	December 2018
2 Enhancement of controls with the purpose legality and regularity of business accounting operations	Implementation of detailed risk analysis and existing controls in planning processes, budget execution and in pilot BiH Institutions	2016-2018	CHU MFT- BiH Institutions	New/additional controls are introduced/implemented in the key planning and budget execution processes as the result of risk management process	Budget	Under Module 1 Of the 2018 FMC Training Plan, training on "Connecting medium term plans with the Budget Framework Document and programme budget and risk management in planning processes". Workshops on the business processes inventory and risk management process were held in MFA and SIPA as pilot BiH Institutions. Workshops were held in cooperation with the National Academy for Finance and Economics of the Ministry of Finance of the Kingdom of the Netherlands: Risk assessment in view of medium term goals was performed in 41 BiH Institutions in 2018. Risk Registers are established in 53 BiH Institutions, while they are regularly updated in 27 BiH Institutions.	Period 2018

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018	
						Description	Implementation period
	Preparation of internal procedures to regulate procedures, deadlines, authorisations and responsibilities in budget cycle key processes in BiH Institutions	2018	CHU MFT-MFT-BiH Institutions	Procedures regulating control mechanisms in the budget cycle are adopted	Budget	In accordance with data contained in 2018 FMC Annual Reports, only 33 BiH Institutions have medium term planning internal procedures in place, while 63 BiH Institutions have budget cycle internal procedures.	December 2018
	Improvement of PIFC IT systems in BiH Institutions	2016-2018	CHU MFT-BiH Institutions	Number of improved IT systems	Budget	Improvement of IT systems in BiH Institutions is implemented by introducing electronic petty cash, a separate module in the financial management IT system for cash operations in all BiH Institutions. Improvement was also achieved through introducing DMS in certain BiH Institutions.	December 2018
3 Creation of preconditions for goals and results oriented management development	Preparation of guidelines/instructions for ex-post controls for disbursed grants, subsidies, support, transfers	2018	CHU MFT-MFT	Ex-post control guidelines are prepared Number and value of identified irregularities in ex-post controls	Budget	In accordance with 2018 FMC Annual Reports, all BiH Institutions disbursing grants do not perform ex-post controls of dedicated spending of budget funds. It is necessary to adopt procedures regulating this field and ensure performance of controls of the dedicated spending of funds.	December 2018
	Medium term and budget planning processes integration	2016-2018	CHU MFT-BiH Institutions	Integration tables are prepared: strategic goals/programmes/budget funds	Budget	Implementation of this measure is ongoing. Amendments to medium term planning regulations are expected in 2019.	December 2018

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018	
						Description	Implementation
	Integration of risk management in medium term planning and budget planning in pilot BiH Institutions	2018	CHU MFT BiH Institutions	Identified and assessed risks to medium term planning goals Identified risks are documented in Risk Registers	Budget	<p>The topic of integration of risk management in planning processes in BiH Institutions is being discussed under the FMC Training Plan for three consecutive years. The self-assessment FMC Questionnaire includes a question on the implementation of the risk management process in view of medium term goals of BiH Institutions. At the proposal of CHU MFT, on the occasion of considering the 2017 FMC Consolidated Annual Report, adopted the following conclusion: "DEP and MFT are instructed to include the obligation of definition of the risk management methodology in medium term and programme planning processes, in the process of upgrading the medium term planning by-laws."</p> <p>Implementation of the stated conclusion is expected in 2019.</p>	

Goals	Measures	Period	Principal bodies in charge	Success indicators	Financial funds	Activities in 2018
						Description Implementation
4 Improvement of FMC regulations	Establishment of working bodies for updating FMC by-laws and other FMC regulations	2017-2018	CHU MFT-EU support Projects-MFT Ministry of Justice of BiH	Revised by-laws are published	Budget	<p>Pursuant to the conclusions of CoM BiH on the 2017 FMC Consolidated Annual Report, CHU MFT acted as follows:</p> <ul style="list-style-type: none"> <li>- Participated in preparation of amendments to the Decision on Classification of Positions in BiH Institutions which included, in the description of responsibilities of heads at all levels of governance, the obligation to establish FMC and risk management within their competencies;</li> <li>- With the aim of implementation of the CoM BiH conclusion related to modification of the Responsibility Statement in part related to FMC, in order to ensure monitoring of implementation of conclusions of CoM BiH and PABiH, CHU MFT prepared and forwarded to MFT the proposal for modification of the Responsibility Statement;</li> <li>- During the meeting held with representatives of MFT and DEP on determining and introducing a single risk management methodology in the medium term planning process, it was agreed that CHU MFT will participate in the process of amending the regulation on medium term planning process in part prescribing the obligation and risk management methodology in BiH Institutions medium term plans.</li> </ul>



5  
Development  
of CHU MFT  
coordinating  
role

CHU MFT capacities strengthening	2016-2018	CHU MFT -CoM BiH	Higher degree of CHU MFT professional competence and capacities	Budget	All members of CHU MFT staff participated in trainings, workshops and conferences organised by professional associations, regional institutions such as RESPA, SIGMA, PEM PAL	December 2018
Cooperation with BiH reform processes principal bodies	2016-2018	CHU MFT -CoM BiH MFT	Number of laws and by-laws adopted in cooperation (MFT and Budget and Treasury Departments, PARCO, etc.)	Budget	Cooperation with BiH reform processes principal bodies is continuous. Cooperation with MFT and DEP was especially improved in 2018.	December 2018
Cooperation with BiH Institutions	2016-2018	CHU MFT -BiH Institutions- Internal Audit Units (IAUs)	Number of meetings held with managements of BiH Institutions, Heads of IAUs, finance units, FMC staff, internal auditors Information needed for FMC improvement are obtained	Budget	CHU MFT continuously cooperates with BiH Institutions in terms of FMC establishment and development technical assistance (TA). In 2018 A number of meetings was held with BiH Institutions representatives. FMC training was held for members of the MFA FMC working group	December 2018
Cooperation with the Audit Office of the Institutions of Bosnia and Herzegovina (AOI)	2016-2018	CHU MFT -AOI	Number of meetings held	Budget	Cooperation through participation in organising the Conference on Internal Audit in the Public Sector of Bosnia and Herzegovina.	December 2018

	Monitoring and quality inspection of the established FMC and Internal Audit Systems	2016-2018	CHU MFT	The Consolidated Annual Report on Internal Audit in BiH Institutions was adopted and published FMC Consolidated Annual Report is adopted and published	Budget	FMC System monitoring and quality inspection is performed through processing FMC Annual Reports and preparation of the FMC Consolidated Annual Report to be submitted to CoM BiH through MFT. The purpose of the FMC Consolidated Annual Report is to inform CoM BiH on the FMC System state, degree of establishment, achieved progress and planned future development measures. Quality assessment improvement is planned through introduction of a software for reporting to be secured through the IFC Improvement Project.	December 2018
	Development of cooperation with providers of FMC and IA training	2016-2018	CHU MFT, IAUs, CSA, CHU FMF and CHU MF RS, International organisations and	The FMC Training Plan is agreed upon The agreed plan and programme of training of IA professional associations and	Budget, IPA Projects		December 2018
	Strengthening of cooperation at the level of the CHU CC	2016-2018	CHU MFT-CHU CC	Meetings of CHU CC and with CHU FMF and CHU MF RS Number of agreed FMC and IA framework	BiH Institutions budget and budgets of FMF and MF RS	In 2018, CHU CC held eight sessions, six regular and two exceptional.	December 2018
	Cooperation with international institutions	2016-2018	-CHU MFT international organisations and institutions	Number of meetings and lectures related to FMC and IA held in the country and abroad Number of meetings and	Budget, IPA Projects	Cooperation with international institutions such as DEU, RESPA, SIGMA, PEM PAL and alike is regular and ongoing.	December 2018

## 6 FMC System future development measures and activities

FMC System development measures and activities relate to competencies and responsibility for FMC establishment and development in each separate BiH Institution and measures and activities implemented by CHU MFT under its competency and authority and pursuant to the BiH Law on Financing.

### 6.1 FMC System future development measures and activities to be taken by BiH Institutions

In their 2018 FMC Annual Reports, BiH Institutions defined the following measures by COSO Framework elements in 2019:

<b>I</b>	<b>Control environment</b>
1	To amend Internal Organisation Rulebooks with the aim of clear description of responsibilities of positions in terms of FMC
2	To ensure connection between strategic and operative planning documents
3	To improve the procedure of determining goals and planning activities in accordance with general implementation documents
4	To further improve FMC through involving Heads of internal organisational units of BiH Institutions
5	To improve human resources management policies, especially in terms of motivation and incentives for the members of the staff through designing tasks and redesigning organisational structures
6	To ensure absolute connection between strategic and operative planning documents
7	To prepare a medium term training and education plan
8	To ensure that finance organisational units of BiH Institutions coordinate FMC implementation and development
9	To precisely define possible conflict of interest and activities and measures in case of breach of the Code of Ethics
<b>II</b>	<b>Risk management</b>
1	To appoint a person charged with coordination of activities on establishment of a risk management
2	To appoint a persons charged with collection of risk data in organisational units of BiH Institutions
3	To adopt a risk management strategy
4	To update Risk Registers
5	To integrate risk management into planning and decision-making processes
6	To establish risk assessment in preparation of planning documents (strategic, operative and financial plans)
7	To prepare an internal document on risk management to establish the system of risk monitoring and reporting
8	To continue activities on raising awareness of the importance of risk management
9	To establish a system of reporting on and monitoring key risks
<b>III</b>	<b>Control activities</b>

1	To update the existing and adopt new procedures for complete, accurate and correct recording of all business and material and financial processes observing the principle of separation of responsibilities
2	To prepare an internal document and implement the principle of separation of responsibilities
3	To update the existing and adopt new procedures for complete, accurate and correct recording of all business and material and financial processes observing the principle of separation of responsibilities
4	To prepare an internal document and take additional measures to implement the principle of separation of responsibilities
5	To adopt IT policies, procedures and instructions to clearly define authorisations and responsibilities of users and safety of procedures
6	To adopt the FMC System monitoring and assessment procedure
7	To plan, implement and document control activities defined as responses to risk in order for risk to be mitigated to an acceptable level
<b>IV</b>	<b>Information and communication</b>
1	To update inventories of business processes in organisational units of BiH Institutions
2	To update key business processes ledgers/maps
3	To introduce electronic management of files and documents
4	To establish reporting to the highest-level management on FMC System functioning
5	To establish an information and communication system and a system of effective, timely and reliable reporting
6	To introduce new IT systems for managing documents
7	To connect and support, to an acceptable extent, business processes (finance, procurement and contracting, asset management, capital projects monitoring, material records, human resources, and alike) and IT systems
8	To prepare a disaster recovery plan
9	To improve communication with other BiH Institutions
10	To strengthen internal vertical communication to enable the members of the staff to obtain, in an acceptable format, purposeful, actual, accurate and reliable information in performance of their tasks and achievements of the goals of the BiH Institution
<b>V</b>	<b>Monitoring and assessment</b>
1	To monitor implementation of internal and external audit recommendations
2	To define the method of monitoring and assessment of adequacy and functioning of the established FMC System
3	To establish reporting to the Heads of BiH Institutions on FMC System functioning
4	To prepare an FMC development action plan
5	To perform ad-hoc controls at the order of the Head of the BiH Institution depending on the case
6	To perform ex-post controls through ongoing monitoring
7	To monitor implementation of internal and external audit recommendations

## **6.2 FMC System future development measures and activities to be taken by CHU MFT**

CHU MFT plans the following in 2019:

- To prepare the new 2019-2025 PIFC Strategy in cooperation with EU IPA TA Project, SIGMA, CHU FMF and CHU MF RS
- To prepare, publish and submit to all BiH Institutions the 2019 PIFC OAP,
- To adopt and implement the 2019 FMC Training Plan,
- To continue activities of FMC development in BiH Institutions in accordance with its competencies and the 2019 PIFC OAP and ensure harmonisation of the FMC System in BiH Institutions through participation in the CHU CC,
- To actively participate in implementation of EC IPA TA Project goals and activities directed toward further FMC development in BiH Institutions
- To improve the system of informing the public on the importance of introducing a quality FMC System in BiH Institutions in accordance with the EU practices.

## **7 CONCLUSIONS**

CHU MFT hereby proposes CoM BiH to adopt the following conclusions upon considering the 2018 FMC Consolidated Annual Report:

1. CHU MFT is instructed to publish the 2018 FMC Consolidated Annual Report on the web page of MFT and to inform all BiH Institutions on CoM BiH conclusions;
2. BiH Institutions are instructed to continue FMC establishment and development and especially implementation of measures and activities defined in the 2019 FMC OAP;
3. BiH Institutions which did not implement conclusions of CoM BiH related to FMC Consolidated Annual Reports for previous years are instructed to continue activities with the aim of implementing the adopted conclusions;
4. CSA is instructed cooperate with CHU MFT and include FMC training in mandatory managerial training for Heads of organisational units in BiH Institutions;
5. MFT is instructed to propose future amendments to the BiH Law on Financing pertaining to sanctions to be imposed on Heads of BiH Institutions for delays in submitting their FMC Annual Reports;
6. MFT and CHU MFT are instructed to submit the 2018 FMC Consolidated Annual Report to PABiH.

**No.: 03-1-16-8-14-72/19  
Sarajevo, 29 March 2019**

**DIRECTOR OF CHU MFT**

**Ranko Šakota, m.p.**