

Impact of Public Internal Financial Control on Public Administration in Croatia

Vesna VAŠIČEK

University of Zagreb
vvasicek@efzg.hr

Martina DRAGIJA

University of Zagreb
mdragija@efzg.hr

Mirjana HLADIKA

University of Zagreb
mhladika@efzg.hr

Abstract. *The PIFC /Public Internal Financial Control/ was developed by the European Commission. PIFC is set of principles internal financial controls system established for the purpose of controlling, auditing, supervise on the use of national budget and European Union budget and funds. Also, in order to support candidate countries in their internal control system reforms in the public sector. Therefore, it is expected for the candidate countries to establish and develop the system of internal financial controls according to the concept which was in that field developed by the European Union based on International Standards and the best practice of European countries. Since the year 2003 the Republic of Croatia undertakes intensive activities on the establishment and development of the internal financial control system according with the regulation of European Union. In keeping with the set concept, the Republic of Croatia undertook numerous activities during the past six years to create all the necessary assumptions for the establishment and development of the system, including: the adoption of the initial strategic documents; drafting of laws; the creation of organisational capacities and human resources; and the implementation of the system with budget users at central government and local levels. In this paper we will present phases of implementation PIFC in Croatian Public Sector. Through this phases we will show impact that PIFC has on development of New Public Management in Croatia and changes in organizational structure and human resource that are caused during this process. Also, we will give critical opinion of that process and problems which occur during implementation. In this paper we will present approach in implementation of PIFC in Slovenia and Bosnia and Herzegovina and compare this with implementation in Croatia.*

Keywords: public internal financial control; croatian public sector; reform; international standards.

JEL Code: 13G, 14J.

REL Code: G32.

1. Development of normative and institutional framework of PIFC in the republic of Croatia

Currently, in Croatia, intensive activities in preparation Croatia for the membership in the European Union are something that is most interesting. In that context, requirements for reforms in the public sector are more and more highlighted and expressed. The membership in the EU and requirements that candidate countries have to meet also carries some problems. "The problems that the public sector, in generally, and public administration, in particular encounter, are demography, IT or globalization and *Europeanization*. The *Europeanization* process points toward a variety of attitudes and social-economic and cultural behaviors that interpret, assimilate and use the regulations, best practices and communitarian norms in a different social and temporal context. In parallel or contrastively with the *Europeanization* process, the European integration constitutes a political process of adoption, by the national actors, of the new mechanisms and communitarian norms." (Matei, 2009, p. 72) "In regard to the public administration, the Europeanization may be seen as a two level process: *the European level* that refers to a distinct evolution for each particular governing system, a new set of public structures and processes which interact with those already established for the *Member States* that form the *second level*." (Matei, 2009, p. 74) So for the membership in the EU Croatia has to meet all the requirements of EU Commission and one of very important requirement is implementation of Public Internal Financial Control System in the Croatian public sector.

In the process of enlargement of the EU all candidate countries have to establish and develop their own system of internal financial controls in the public sector (PIFCS – Public Internal Financial Control Systems) and also implement mentioned system in the government units.⁽¹⁾ Adaptation of public internal financial controls system to the European standards, with the purpose of public administration reform and establishing of its administrative capacity, is for every government one of the priority areas in the process of approaching to the EU. The Republic of Croatia has undertaken a series of activities on implementation of PIFC in their public sector.⁽²⁾

In the pre-accession negotiations with the Republic of Croatia, the EU Commission stated that the negotiating chapter 28 Financial control requires significant adjustments to EU requirements. During year 2002, through the project CARDS 2002 "Development of internal financial control in the public sector and internal audit" began the process of introducing PIFC in Croatia. The project CARDS 2004 "Further development and strengthening of the internal financial controls system in the Republic of Croatia" continued the activities of

the previous project, with an emphasis on the development of FMC - Financial Management and Internal Control and the implementation of the PIFC in the local units.

Also, normative framework was amended and several strategic documents were adopted with the aim to organize and sustain the system of internal financial controls in the public sector. Development strategy of PIFC⁽³⁾ was defined and also it was several times redefined and adopted by the Government of the Republic of Croatia. With these strategic documents government of Croatia clearly pointed out importance and significance of the implementation of PIFC in Croatia and has made efforts to integrate the development of PIFC with other reform processes in the public sector in Croatia (Stepic, 2009).

With the Budget law⁽⁴⁾, in the year 2003, the liability of organizing internal audit and existence of the basic elements of financial management and internal controls was prescribed. At the end of 2006 Public Internal Financial Control Act⁽⁵⁾ was adopted in order to encourage greater development of PIFC and to strengthen legislative liability of implementation. Firstly, based on Budget law, and after based of Public Internal Financial Control Act, Croatia drafted the Regulation on internal audit of budgetary users and Regulation on implementation of financial management and control in public sector that helps institutional, organizational and operational implementation of PIFC.⁽⁶⁾

The intention of the overall normative framework is to improve public resources management and head of government units is for that primarily responsible. His primary task is to establish a system of internal financial controls and improve management within its jurisdiction, in his units. Insisting on the responsibility of head of government units leaders clearly defined that implementation of public internal control systems should contribute to improvement of management processes in the public sector.

In that system there are two basic components that are necessary to develop and implement in the public sector (for state and local level).

- financial management and control, and
- internal audit.

Establishment of system of financial management and control is the obligation of all budgetary users, regardless of their size measured by the number of employees and financial resources at their disposal. With this fact it is highlighted intention of the Act that all users of budgetary funds have an obligation to manage budget funds in a proper, ethical, economical, efficient and effective manner, its business must be aligned with the laws, regulations, policies, plans and procedures, protection of property losses caused by poor management, unjustified wear and use, and by irregularities and fraud by

strengthening accountability for the successful realization of the task and the obligation to timely financial reporting and tracking of business results.⁽⁷⁾

The head of government units has been recognized as responsible person for establishment of efficient and effective system of financial management and control. "For the public sector or public administration, effectiveness means, on one hand, to define previously an objective and, on the other hand, to measure (or at least, to estimate) the outcome obtained" (Matei, Dinu, 2009, pp. 3-5). While efficiency represents the main objective of the administrative reform, as well as responsibility and accountability towards the consumers. Head of government units can transfer his responsibilities to other people through all sorts of documents about internal organizations and work methods, but this does not exclude his liability. Namely, it is assumed that the obligations of the head of government are multiple and therefore he will not be allowed to do operational establishment in connection with implementation of financial management and control. So, he has the opportunity to appoint the head manager or coordinator to establish financial management and control. Transferring authority and responsibility for the operational establishment to the manager or coordinator does not exclude the responsibility of the head of government units. It can be concluded that if the head of government do not realize their own responsibility and need for the establishment of this system, and if he do not establish a quality communication with staff that is in charge for establishment (manager, coordinator), and with all other employees, he will not establish an effective system of financial management and control. The procedure of establishment of financial management and control is based on the application of International standards of internal control. Here are highlighted mutually related system components: control environment, risk management, control activities, information and communications, monitoring and assessment of the system.⁽⁸⁾

Establishment of the system of financial management and controls is a process that requires a certain amount of time with a clear introduction of the activities and shared responsibility for the final result. In accordance with the normative framework it is necessary to create a plan of financial management and control, and in this way determine the time and the human component in the execution of this task. The plan will indicate the deadlines within the system will be established, that is the deadlines within business processes of budget users will be listed, and then the business processes will be described with the use of flowchart diagram. Consequently, a map of the process will be formed and then will start with the identification of risks, which means the evaluation and ranking of risks with the purpose of managing those risks. Furthermore, internal controls will be estimated, existing and required controls will be

analyzed, and plans for the removing weaknesses of internal controls will be created and the period of monitoring of these plans will be determined.

In the establishing of internal audit, the following areas are highlighted:

- role and purpose of internal audit,
- way of establishment an internal audit,
- conditions for making internal audit – internal audit as a profession,
- way of achieving the independence of internal auditor or internal audit unit,
- standards and methodology of work internal auditor, and
- obligations of head of unit and cooperation with other bodies.

In accordance with the widely recognized role of internal auditor, it is defined the scope of internal audit in the public sector in the Republic of Croatia.

Internal audit⁽⁹⁾ a) is a part of comprehensive system of internal financial control in public sector, b) is an independent and objective activity that gives expert opinion and advices with the aim of adding value and improving budget users operating, c) helps budget user in achieving the goals using a systematic and disciplined approach of evaluation and improving the efficiency of the process of risk management, control and management.

Internal audit are obliged to carry out the budget users defined according to the following criteria:

- size, if they employ more than 100 employees (on the state level) or 50 employees (on the local level) and have annual expenditure and expenses more than 30 millions of Croatian kuna,
- and other criteria (local government units that have centralized functions) and
- all who are using the European union funds.⁽¹⁰⁾

The independence of internal audit unit and independence of internal auditors are prescribed as one of the essential conditions for performance their duties.

According to law it is prescribed that internal audit which is conducted in accordance with:

- a) International Internal Auditing Standards, and
- b) directives and guidelines that regulate the internal audit in Croatia.

The detailed guidelines that govern internal audit are: The Charter of Internal Auditor, Code of Professional Ethic of Internal Auditors and The Manual for Internal Auditors, which are made by central harmonized unit and which are authorised by Minister of Finance.

Ministry of Finance is responsible for coordination of establishment and development of this system. Directorate for harmonization internal audit and

financial control is responsible for implementation of coordination. This Directorate has changed its constitution and has adjusted it to the further development of the system of internal financial controls. Emphasis of the new constitution from 2009 year is placed on developing methodologies and standards of internal audit and control, on the coordination of education and quality assessment, as well as international cooperation, primarily with partners in the European Union.⁽¹¹⁾

Understanding the importance of education employees in the state administration with the needs and obligation of constitution of the internal control in public sector seminars, workshops and lectures are organised. There are also prepared manuals and instructions that provide the adoption of a common methodology of work and reporting those persons who are involved in the system of financial management and control and internal audit. Certification of internal auditors is conducted.⁽¹²⁾

2. Progress in implementation and future directions of development of PIFC

A short study will be presented for the purpose of understanding how PIFC develop in Croatia. That study is conducted at the beginning of the introduction of PIFC.

During the year 2005, empirical research has been conducted on a sample of 101 budget users through a questionnaire⁽¹³⁾, which was aimed to investigate the presence, organization and functioning of the internal and external control in the public sector in Croatia.⁽¹⁴⁾ Below are summaries of survey results presented in the part of analysis of internal control systems for budget users.

The part of mentioned research dealt with the issues of understanding the importance and function of internal controls. In the questionnaire there was a question about understanding what the internal controls are (definition). From the given results it can be concluded that the respondents are not fully familiar with the contents of internal controls and that there is no complete understanding of the differences between various forms of supervision, particularly between internal controls and internal audit.⁽¹⁵⁾ This conclusion suggests the need to educate employees to understand the importance and function of internal controls, particularly the role of all employees in that process.

It turned out that in development of comprehensive system of internal financial control emphasis was placed on the development of internal audit and that internal control systems development was neglected. Internal auditors receive task (by the standards of internal controls and rules of the profession) to evaluate internal control, but budget users have not defined them. The fact is that the project CARDS 2002 "Development of PIFC and Internal Audit" was

primarily aimed to develop internal audit. CARDS 2004 "Further development and strengthening of internal financial controls in the Republic of Croatia" continued activities of the previous project with greater emphasis on the development of financial management and internal control. This has helped to solve misunderstanding about who is responsible for establishment of internal control systems and on what way it is needed to establish implementation of internal controls system.

Also, empirical research dealt with the question of the extent to which the control environment is "ripe" and ready to establish internal controls system. In the part of the willingness to accept the internal control system, research results indicates the need for precise delimitation of authority and responsibilities, and delegating responsibility to lower levels in order to create preconditions for the establishment and survival of internal controls system. In doing so, it is equally important to change management philosophy and styles and to educate all employees to understand what internal controls really are. Only on that way it is possible to establish the internal control system by budget users.

In choosing answers about what is considered to be the main reason for the absence or no implementation of internal control procedures here are presented most frequent reasons:

- The employees do not have the knowledge and skills for the implementation of internal controls.
- Lack of documented and regulated control procedures for each individuals at all levels and in all parts of the organization.
- Lack of supervision on the work of head of government units and lack of accountability for the head of government units for the introduction of internal controls.
- Lack of documented demarcation of authorities and responsibilities between employees.
- Lack of understanding of internal control procedures.
- Inadequate organizational structure and unclear internal communication.
- Inappropriate requirements of head of government units for professional competence of employees.

The study confirmed the existence of some form of control and partial control in some parts of process or in the whole process.

In response to question about areas that have developed some form of control by the frequency response, here is presented following scale of positive responses:

- Control of non-cash and cash business transactions (72.53% of respondents).

- Payroll accounting (70.33% of respondents).
- Procurement, ordering and payment of invoices (61.54% of respondents).
- Control of the accounting system and accounting reports (54.95% of respondents).
- Document management (21.99% of respondents).
- Control of the acquisition and disposition of capital assets and stocks (15.38% respondents).
- A small share in responses has information technology control (6.59%) and portfolio management (2.19%).

According to the mentioned areas in which the control methods are present, it is obvious that the control is significantly developed in some areas. Most of them are based on inherited (traditionally) controls and on the obligations to control that are imposed by certain laws and regulations.

In most cases existing control system is not established taking into account the goals that the organization wants to achieve. Existing controls are mostly “inherited” and are not systematically set up, and mainly relate to the control of legality and regularity, and almost no one on the control on the economy, efficiency and effectiveness.

Empirical research has shown that the main barriers in the implementation would be the control environment and insufficient educated and motivated employees, especially management structure. Above was confirmed during the implementation.

“It is notable that the established internal financial control systems are still not fully integrated into existing management processes, and often represent *supplement* to existing management processes.”(Stepič, 2009) Therefore, the strategy emphasized the need of cooperation and communication between internal auditors and management structure with the aim of using auditor findings and to be truly added value. Avoidance of parallelism in terms of parallel structure of governance and oversight is not fully successful. Parallelism is noted in the existence of two internal control systems: the national funds and the European Union funds. Procedures to withdraw funds from the pre-accession EU funds, based on clear legal regulations, impose the development elements of management controls. Knowledge and experience gained for the management of EU pre-accession funds is not integrated and used for the management of national (budgetary) resources.

Wider control environment is important for the development of internal control systems in public sector. Control environment should encourage, but not restrict the development of internal control system, and it includes: a strong and central responsibility of the Ministry of Finance for financial transactions,

uniform accounting standards and clear and transparent reporting, defined responsibilities and competence of employees, a strong state audit and other forms of external oversight.⁽¹⁶⁾ In the Republic of Croatia was initiated a series of reform processes in these areas, especially in the budget area that is an assumption of an effective internal control system.⁽¹⁷⁾ It is important to strengthen financial management and control processes that are crucial for the quality management of budget funds. Budgetary reforms are going in the direction of strategic planning and development of planned and programming stages of the budget cycle. Also, they put on greater emphasis on achieving goals and achieved results for the invested budget funds. Emphases in the spending of budget funds by using program planning are on the defining of program objectives and performance indicators, which requires the development of accounting framework in the area of cost accounting and management accounting. Strengthening the internal control system in the processes of planning and programming, execution, accounting and reporting is the backbone of development and guarantee the successful implementation of internal financial control system.

Broadly set out concept that is aimed at the all business processes showed difficulties in the application and is deciding to focus on the basic budgetary processes as the most important area of control. For these processes, particularly in terms of budget execution through treasury system, there are standardized and regulated procedures, which assume that perform on the same way by all users. "Towards to achieve more efficient use of limited audit resources and the fact that some equivalent processes taking place in more or almost by all budget users, in the next budget period it will be organized so-called enforcement *horizontal* audit." (Stepić, 2009) Furthermore, it anticipates enforcement of *vertical* audit which include process audit more interrelated budget users. Between those budgetary users, business process is conducting on a way that a part of activities is conducted by one budgetary user and a part of activities of the same process is conducted by another budgetary user. These strategies of work of internal audit are in the direction of better use of existing human resources and accelerating the process in terms of achieving the benefits of the implementation of Public Internal Financial Controls.

From the beginning of establishing internal financial control system, results that were achieved in the field of legal regulations, development of methodologies and standards of work, training staff and the partial establishment by a certain number of budgetary users are obvious. These activities have been successfully fulfilled according to the criteria for reconciliation which were set out in Chapter 32 - Financial Control. According

this chapter, Republic of Croatia performs reconciliation with the European Union in the area of internal financial control system.

While, on the one hand, performance indicators are obvious in meeting the criteria for access, on the other hand, improvements in management of budget funds that result with implementation of this system for budgetary users are not sufficient. Therefore, the development is strategically focusing on the need that internal financial control systems are fully integrated into existing management processes and especially in the budgetary processes.

3. Comparison of approaches in implementation of PIFC in Bosnia and Herzegovina and Slovenia

3.1. Experience of Federation of Bosnia and Herzegovina

Bosnia and Herzegovina is administratively divided into two entities, the Federation of Bosnia and Herzegovina and the Serbian Republic and the District Brčko. Federation of Bosnia and Herzegovina is administratively divided into 10 cantons which are making out from 79 municipalities. The Serbian Republic has 62 municipalities while the District Brčko is a single entity⁽¹⁸⁾. From the previously mentioned administrative structure in Bosnia and Herzegovina it can be shown that it is very complex territorial structure that has high level of autonomy of individual components of Bosnia and Herzegovina. Also, it has high level of fiscal decentralization of public functions and services.

The above-mentioned structure in Bosnia and Herzegovina makes difficult to adjust only one approach in development of PIFC.

The entities have legislative and executive autonomy, which in some matters belongs also to the cantons, and result of that is a different legal framework and regulation of the same area. However, there was series of attempts at harmonization of regulations in the Bosnia and Herzegovina on the legislative level to create the preconditions for legislative and economic integration of all territory of Bosnia and Herzegovina and integration into the EU. Below, for the purposes of this paper, we will follow the legislative framework at the level of the Federation of Bosnia and Herzegovina and we will not illustrate the differences between mentioned entities.

Legal framework of public expenditure is based on the Budget law.⁽¹⁹⁾ All levels of government, budgetary and extra-budgetary users are financed from the budget fund. The Budget law introduces the obligation to structure the system of internal controls and internal audit. Budget users are obliged to regulate the system of internal control in accordance with international standards of internal control and by doing so they will ensure the carrying out of activities within the core business. Ministry of Finance makes the

instructions for setting up and maintaining systems of internal control. Budget users are obliged to adopt regulations on internal controls. Also, liability for setting internal audit is prescribed.

During the year 2008, the next step is done and the Law on Internal Audit in the public sector in the Federation of Bosnia and Herzegovina is adopted. This act provides normative framework for the development of internal auditing in the public sector. The establishment of the Central Harmonization Unit was defined with the aim to coordinate and supervise the functioning of the internal audit and as a strategic and methodological help to develop the profession. Central Harmonization Unit has an obligation to implement training programs and certification of internal auditors. Before the establishment of normative framework, there was a certification of the internal auditors through the Institute of internal auditor (professional association of internal auditors). It follows that the need for the development of internal financial controls has recognized profession, which in this sense inform, educate and adopt international standards in this area before this became a legal obligation.

It can be concluded that the emphasis is placed on development of internal audit, which has developed certification and normative framework. However, realization of the necessity of implementation of internal financial control must reach public management in order that this process is indeed successful. There is justified fear that the system of internal control is not recognized as an important management concept that is necessary for the improvement of the budgetary process.

3.2. Implementation of PIFC in Slovenia

Republic of Slovenia is from the 1th May of year 2004 member of the European Union, but before Slovenia joined to the EU it had to implement public internal financial control system in the government units. The process of implementation of PIFC in Slovenia began in September 1999 with the new Public finance law. Slovenia has not adopted a separate law on PIFC as it is the case in Croatia, because PIFC was implemented within the Public finance law. According to the Amendments on the Public finance law from year 2002, the public internal financial control system in Slovenia was updated in a way that strengthened the role of the central body for the development of methodology and coordination of financial management and control.

The public internal financial control covers on a unified system based management, controls and internal auditing, provided by direct and indirect spending centre, with the purpose to manage its operations and ensure achieving of objectives in accordance with the principles of legality, expedience

and transparency. Internal controls cover the system of procedures and methods for management of risks, which might threaten:⁽²⁰⁾

- achieving of set business objectives;
- transparency of operations in accordance with laws, regulations and managerial instructions;
- economic, efficient and effective use of resources;
- safeguarding of resources from losses resulting from negligence, misuse, inefficient management, errors and fraud;
- accurate, complete and reliable reporting.

So in Slovenia, internal auditing is an independent, objective assurance and consulting activity designed to improve the budget spending centre's activities. Internal auditing helps the budget spending centre accomplish its objectives by bringing a systematic and disciplined approach to improve the effectiveness of risk management, internal controls and governance processes. Currently, in Slovenia, there are about 360 state internal auditors, while in Croatia there are around 220 state internal auditors. It can be concluded that Croatia should follow Slovenia as an example in implementation of PIFCS in their government units.

Also in Slovenia, the Budget Supervision Office is a central body of the public internal financial control system responsible for development, harmonization and supervision of the financial management and internal control system as well as internal audit of direct and indirect budget spending centers on the central and local level.⁽²¹⁾ Therefore, the Budget Supervision Office has taken the role of the Central Harmonization Unit.

In the field of spending of the EU funds the Budget Supervision Office performs pre-accreditation reviews, independent control of expenditures, certifies declarations of expenditures and issues winding-up declarations. It regularly reports to the European Commission on irregularities regarding the use of EU funds, acts as the contact point of the European Anti-Fraud Office (OLAF) and coordinates activities referring to the protection of EU financial interests.

Conclusion

In recent years, Croatia is intensively preparing for accession to the European Union, and therefore is taking a series of activities to comply with the requirements of the European Commission. Also, one of these activities is establishment and development of PIFC, which implies a reform of public administration and its administrative capacity. For this activity Croatia has 6 to 8 years, but normally this process last 15 to 20 years and from this it can be concluded that this demands extreme effort to develop PIFC in such sort period.

Until today, Croatia has done very much according with requirements of the EU. Development Strategy of PIFC was several times defined, also Public Internal Financial Control Act was adopted in order to strengthen the legal obligations of implementation.

Empirical research in the year 2005 about functioning of external and internal controls in Croatia has shown that public administration is not familiar with the contents of internal controls and internal audit and that public administration does not have appropriate knowledge and skills for implementation of internal controls in the government units.

Strategy of Development Public Internal Financial Controls⁽²²⁾ adopted in 2009 years is based on the fact that in the period up to year 2009 a normative framework and created organizational capacity is established and that future development should focus on strengthening the role of internal controls in management processes and a stronger connection with other reform processes.

Experience of our neighbors is useful source of information that can help Croatia to accelerate its path towards the European Union. This primarily refers to the Republic of Slovenia, which has successfully done public administration reform and has implemented PIFC in the public sector of Slovenia. While Bosnia and Herzegovina could learn from the experience of Croatia how to improve its potential for negotiations on the future membership in the European Union.

Notes

- ⁽¹⁾ Analyzes of internal and external control systems in the EU member states and candidate countries for membership in the EU has led to the conclusion that there are present large differences in the methods, organization and procedures of implementation of control. The fact is that the control system of one country may not be applicable or equally successful in other countries. Based on these insights, the European Commission formed opinion that the area of financial control, in order to more clear and comprehensive definition of the term internal control in the public sector and with a desire to avoid mistakes and misunderstandings including the coverage of this term, uses the term PIFCS (internal public financial control systems) - system of internal financial control in the public sector. To avoid terminological confusion term PIFCS should be understood as a coherent and unified system of control which content includes internal audit and internal control, i.e. FMC - financial management and internal control. The above mentioned term has first of all the aim to define systems, processes and methods, and not the institutions that carry out internal control or the organization itself and ways of implementation.

- (2) Knowledge about theoretical framework and consequently the distinction between the terms internal audit and internal controls that was partially implemented into normative framework of the development of PIFC in Croatia distinguishes the following basic components: financial management and internal control (FMC - Financial Management Control) and internal audit. Defining terms of internal control and internal audit, the question linked with demarcation between them and the content differences appear. A problem of demarcation scope of internal control and internal audit in the public sector in some way is minimized, and emphasis is put on the overall control through the definition of PIFCS – public internal financial control system.
- (3) Development strategy of internal financial control (PIFC - Public Internal Financial Control) in the Republic of Croatia was adopted at the session of the Government on 15 June 2005. This is an enhanced version of the document which was first adopted at the government session on 2 September 2004. Third strategy for development of internal financial controls in the public sector was adopted on 22 September 2009 www.mfin.hr/adminmax/docs/PIFC_Strategija_konacno-15092009.pdf
In November 2007, for the local level was made the strategy of an independent development of internal financial control in the public sector for the Croatian local and regional (regional) government, which refers to the period 2007-2010
- (4) See Official Gazette (2003) Budget law. Zagreb.
- (5) See Official Gazette (2006) Public Internal Financial Control Act. Zagreb.
- (6) In the year 2004, for the first time on the basis of the Budget law the Regulation on internal audit of budget users (Official Gazette 114/04) was passed and it was amended and supplemented in the year 2005 by Regulation on internal audit of budget users (Official Gazette 150/05). On the basis of the Public Internal Financial Control Act the regulation on the internal audit of budget users (Official Gazette 35/08) was adopted and also Regulation on the implementation of financial management and control in the public sector (Official Gazette 35/08).
- (7) According to the Article 6 of the Act, see Official Gazette (2006). Public Internal Financial Control Act. Zagreb. Official Gazette, 141
- (8) As a framework for the development of financial controls, in the Public Internal Financial Control Act, are determined the International Internal Control Standards. All activities related to financial management and controls are established in accordance with the COSO model, which was adopted by the Committee of Sponsoring Organizations of the Treadway Commission. According to the COSO framework, internal control consists of five mutually related components that are implemented and explained through articles/provisions 9. to 14. of the Public Internal Financial Control Act.
- (9) According to Article 16, The Law on system of Internal Financial Controls in Public Sector, Official Gazette, No. 141/2006.
- (10) According to the Regulation on the internal audit of budget users, Official Gazette, No. 35/2008.
- (11) Constitution and scope of work is defined by the Regulation on Internal Organization of the Ministry of Finance [www.mfin.hr/hr/zakonodavstvo?id=11&type=zakon].
- (12) Professional authority to conduct an internal audit is issued by the Minister of Finance. Training is conducted at the Ministry of Finance by the Directorate for harmonization internal audit and financial control.
- (13) The survey was conducted during year 2005. The analysis has taken 101 returned and completed survey questionnaire which can be considered from the standpoint of research requires a significant level of data collected. Surveys expressed relative, 58.62% of budget

users financed from the state budget, 36.21% of budget users financed from local budgets, and 5.17% of extra-budgetary users. Most common are the bodies of local government (46.53%), and after that are institutions (27.72%) and government bodies (24%). According to the number of employees that are budget users who have mostly up to 50 employees (62.8% of respondents), after that 50-100 employees has 20.88% of respondents, from 101-200 employees and from 201-500 employees has 6.59% respondents, and finally more than 500 employees has only 3.3% respondents. Annual revenue is with the biggest relative frequency in the range of 1-5 million kuna has 28.89% of respondents, ranging from 5-10 million kuna has 18.89% of respondents, and more than 50 million kuna has 26% of respondents. The total value of the property which has a budget user is correlated with an annual income and the biggest relative frequency is in the range of 1-5 million kuna has 24.39% of respondents, 5-10 million kuna has 15.85% of respondents, 10-20 million kuna has 12.19% of respondents, and more than 50 million kuna has 19.51% of respondents.

- (14) Full results are published in the paper: Vašiček, V. (2006) The scope and organization of internal control in public sector. IX Consulting Internal Audit and Control, Poreč, October 2006. Zagreb: Croatia Board of accountants and financial professionals.
- (15) In defining what internal control are, 34.94% of respondents answered that this is an internal audit department that specializes in testing and evaluation of the totality of the functioning of business processes and provides the opinion for improvement of mentioned process, 10.84% respondents answered that it is the internal control department in which the officers are engaged with control activities, 33.74% of respondents recognized that the internal control are integrated system of control procedures built into the business processes of the organization, while 8.44% of the respondents defined control procedures as only partial controls that are integrated in certain business processes
- (16) According to Allen, R., D. Tommasi (2001) Managing Public Expenditure, A Reference Book for Transition Countries. Paris: OECD, SIGMA Program, p. 263.
- (17) Normative framework of the budgetary system reform is made by the Budget Act of 2003, and continued in Budget Act of 2008. Legal framework introduces more advanced approach to budgetary planning and programming, accounting framework and reporting, budget execution through treasury system, controlled borrowing and successful management of public debt and deficit, etc.
- (18) Source: the Statistics Agency of Bosnia and Herzegovina, www.bhas.ba/new/BiHStats.asp
- (19) Budget Law of the Federation of BiH, Official Gazette FBiH 19/06, amendments 78/08 and 4/09.
In the FBiH, all regulations are published in each of the official languages: Bosnian, Croatian and Serbian.
- (20) See www.unp.gov.si/en/public_internal_financial_control/
- (21) See www.unp.gov.si
- (22) Third serial Strategy for Development Internal Financial Controls in Public Sector was adopted on 22nd of September in 2009. [www.mfin.hr/adminmax/docs/PIFC_Strategija_konacno-15092009.pdf]

References

- Allen, R., Tommasi, D. (2001). *Managing Public Expenditure, A Reference Book for Transition Countries*, Paris: OECD, SIGMA Program, p. 263
- Budget Law of the Federation of BiH, *Official Gazette FBiH 19/06*, amendments 78/08 and 4/09
- Budget Law, *Official Gazette*, 2003
- Matei, A., Dinu, T., „Improvement of Government Financing through Non-Conventional Methods: Reducing the Administrative Costs in the Public Sector”, Fifth TransAtlantic Dialogue: The Future of Governance in Europe and the US, Washington D.C., June 11-13, 2009, Available on SSRN: <http://ssrn.com/abstract=1421133>
- Matei, L. (2009). *Romanian Public Management Reform*, Volume 1, *Administration and Public Services*, Economica Publishing House, Bucharest, Romania, Available on SSRN: <http://ssrn.com/abstract=1469995>, Volume 2, *Civil Service*, Economica Publishing House, Bucharest, Romania, Available on SSRN: <http://ssrn.com/abstract=1470028>
- Public Internal Financial Control Act, *Official Gazette*, 2006
- Regulation on internal audit of budget users, *Official Gazette*, 114/04
- Regulation on the internal audit of budget users, *Official Gazette*, No. 35/2008
- Statistics Agency of Bosnia and Herzegovina
- Stepic, D., „Development Strategy of the system of internal financial controls in the Croatian public sector for the period of 2009-2011”, *RIF's Treasures Journal of Accounting, Auditing, Finance and Law in the Budget System and the Non-profit Sector*, 09/2009
- Vašiček, V., „The scope and organization of internal control in public sector, IX”, *Consulting Internal Audit and Control*, Poreč, October 2006, Zagreb: Croatia Board of accountants and financial professionals
- www.bhas.ba/new/BiHStats.asp
- www.mfin.hr
- www.mfin.hr/adminmax/docs/PIFC_Strategija_konacno-15092009.pdf
- www.stat.si/
- www.unp.gov.si/
- www.unp.gov.si/en/public_internal_financial_control/