



Republic of Serbia
MINISTRY OF FINANCE
Department for control
and internal audit
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Overview of the work quality of the internal audit

The overview of the work quality of internal audit has been performed in ten Ministries for the period from 1 January 2015 to 30 September 2016, in accordance with the Article 83, paragraph 2, item 1) of the Law on budgeted system (“Official Gazette of RS”, no. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - corr., 108/2013, 142/2014, 68/2015 – other Law and 103/2015), related to the Articles 11 and 12 of the Rule Book on Common Criteria for Organizing and Standards and Methodological Instructions for Internal Audit Operations in the Public Sector (“Official Gazette of RS”, no. 99/2011 and 106/2013).

The overview of the quality work has been performed in:

- Ministry of Finance,
- Ministry of Construction, Transport and Infrastructure
- Ministry of Trade
- Ministry of Agriculture and Environmental Protection
- Ministry of Mining and Energy
- Ministry of Culture and Information
- Ministry of Health
- Ministry of Justice
- Ministry of Education, Science and Technological development
- Ministry of Labor, Employment, Veteran and Social affairs

The overview has included the verification of the fulfillment of prescribed requests for incorporation of the internal audit units, scope of audit, competence and skills of the internal auditors, functional and organizational independence of the internal audit, internal audit charter and ethic code, knowledge of the internal audit standards, strategic and annual plans of the internal audit, application of the methodologies of the internal audits, risk management of the internal audits, internal quality controls, need for future trainings and memberships in the professional associations. This report is based on the individual overviews performed by the staff of the Department of control and internal audit of the Ministry of Finance in the above mentioned Ministries.

Internal audit units

The obligation of establishing the unit for internal audit in the Ministry has been determined by Article 5 paragraph 2 of the Rule Book on Common Criteria for Organizing and Standards and Methodological Instructions for Internal Audit. The unit for internal audit shall consist of not less than three internal auditors and one being the head of the unit for internal audit. The number of internal auditors in Ministries shall be determined by the internal general act, based on the risk assessment, scope and complexity of the business processes, scope of available funds and number of employees.

Two Ministries has anticipated one position for independent posts by their Rulebooks on internal organization and job classification – internal auditors, five has classified units consisting of three positions for internal auditors and three Ministries have classified more than three positions for internal auditors.

Out of ten Ministries only three has employed three or more internal auditors in the internal audit units and in seven Ministries internal audit consists of less than prescribed minimum number of internal auditors.

Scope of audit

The scope of all established internal audit units includes all internal organizational units, bodies within Ministries and indirect users of budget funds within Ministries' jurisdictions.

Competence and skills of internal auditors

All employees in the Ministries at the posts of internal auditors are certified internal auditors in public sector, apart from one whose certification is in progress. All internal auditors fulfill the requests defines in Article 3 of the Rule Book on Common Criteria for Organizing and Standards and Methodological Instructions for Internal Audit Operations in the Public Sector, related to the necessary professional qualifications and working experience for classified positions defined in Rulebooks of internal organization and job classification. The majority of internal auditors have attended training on scope of work of the State authorities and specialized training related to the operation of the Ministry of their employment. The majority has also attended training of conducting internal audit in IPA bodies and structure organized by the Government Human Resource Management Service or by Department for internal control and audit in cooperation with the Sector for Management of EU Funds in Ministry of Finance.

Functional and organizational independence of the internal audit

Internal audits of the Ministries have been established as functionally and organizationally independent, directly responsible to the Minister, which has been determined in the Rulebooks of internal organization and job classification of the Ministries. Internal audit directly reports to the Minister on its work and the plans, work and reports on conducted internal audits and work of the internal audit are independent from other organizational units of the Ministry. However, the funds for the work of the internal audit are not planned nor are they

specifically noted in the financial plans of the Ministries and they are included in the total expenses.

Internal Audit Charter and Ethic Code

All internal audits in Ministries have Internal Audit Charters signed by Ministers and heads of internal audit/internal auditor. The Charters comply with the model defined in the Internal Auditing Handbook of the Ministry of Finance but they are mostly kept in the given generic form. The Charters define the rights and obligations of the internal auditors but some do not clearly delimit the scope of internal auditing in terms of the bodies within the Ministries. The Charters, except in two cases, have not been published on intranet or internet of the Ministries. Internal auditors in verbal communication with the subjects of the auditing refer to the Charter and provide it to the subject of the audit when necessary.

All internal audits have Internal Audit Ethic Code signed by the internal auditors but there is no proof in all cases that the Ministers confirm the Code. The Ethic Codes comply with the model given in the Internal Auditing Handbook of the Ministry of Finance but they are mostly kept in the given generic form. The Ethic Codes, except in two cases, have not been published on intranet or internet of the Ministries

Knowledge of the internal audit standards

All internal auditors are familiar with the International standards of the professional practice of internal audit of the Institute of Internal Auditors (IIA) through the process of training for certified internal auditors in public sector and through the Internal Auditing Handbook of the Ministry of Finance. The official translation of the standard is available and it has been provided by the Association of the Internal Auditors of Serbia. The internal auditors usually refer to certain IIA standards only verbally.

Strategic and annual plans of the internal audit

Internal auditors in the Ministries have strategic three years plan approved by Ministers. Strategic plans have been prepared in accordance with the recommendations given in the Internal Auditing Handbook of the Ministry of Finance. In some cases, when necessary, the strategic plans approved by the Minister have been amended. Internal auditors when preparing the strategic plan consult with the chief executives (state secretaries, assistant ministers and ministry secretary) but usually verbally during the meetings and they do not always have the auditing trace of the conclusions. The strategic plan of the internal audit has not been published on the intranet or internet of the Ministries.

Annual plans of the internal audits comply with the strategic plans approved by the Minister. Internal auditors when preparing the annual plan consult with the chief executives (state secretaries, assistant ministers and ministry secretary) but usually verbally during the meetings and they do not always have the auditing trace of the conclusions. The amendments of the annual plan have been approved by the Minister. The annual plan of the internal audit has not been published on the intranet or internet of the Ministries.

The plans of the internal audit include the audit of the system of decentralized/indirect management of the pre-accession IPA funds within the IPA Operating Structure.

The most common deficiency of the plans is that it has usually been prepared in relation to the classified number of employees and not in relation to the actual number of employees – internal auditors and they result in a large percentage of failure to perform.

The application of the methodologies of internal audit

Internal auditors in their work comply with the methodology given in the Internal Auditing Handbook of the Ministry of Finance. Each single audit is performed on the basis of prepared plan that in details describes the subject, objectives, duration and distribution of resources, auditing approach, techniques and scope of audit. The auditing report is composed for each performed audit that consists of resume, objectives and scope of audit, findings, conclusions and recommendations, detailed report and comments of the management of the auditing subjects. The internal auditors create, for each performed audit, working papers of the auditing that are kept in auditing files, usually in paper form and some of the auditors create electronic files. The lack of certain auditing working papers have been noted with certain internal auditing to document each phase in the procedure of the system auditing.

Risk management of the internal audit

In the Ministries where the process of risk management has been established, the risks of internal audit are included in the risks registers. In the Ministries where this process is ongoing, the internal audit has independently determined the risks. The risk management of the audit is usually documented in the procedure of the work of internal audit.

Internal quality control

Internal quality control of the internal audit is performed through constant supervision by the heads of the internal audits and regular self-assessments. The head of the audit, within each single audit, supervises its course and documents it in paper form – The audit overview. Due to the lack of number of internal auditors within internal audit units, this procedure is usually left out or is merely formally conducted (the head of the internal audit unit is simultaneously also the auditor who performed the audit).

The training necessities

Internal auditors mostly within annual plans express the need for training but in general terms and without specifying certain areas. In direct communication they have expressed the need for additional training related to the audit of the use of EU pre-accession funds and practical training for performance audit and audit of the electronic information system and direct exchange of experience with the colleagues from other States. They have also pointed out that they are often unable to attend certain trainings due to the lack of funds for this purpose in the Ministries' budgets.

Membership in professional Associations

None of the internal auditors is a member of professional Associations. The most common reason mentioned is the lack for funds for this purpose. The information of the professional updates is mostly obtained by internet and informally by colleagues.

The overview composed by
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