

I. DESCRIPTION OF THE PUBLIC CONTROL ENVIRONMENT IN CROATIA

The Supreme Audit Institution (SAI) in Croatia (External Audit)

1. The SAI is requested to provide an extensive description of its tasks, responsibilities, its independence and its relations to the Parliament and the Ministry of Finance (discussions and follow-up of its recommendations). Relevant issues are how the SAI is adapting to EU best practice and international standards of external audit. Description of the remit of the SAI (coverage of all budgetary chapters, non-budgetary national funds, lower authorities etc.). Please provide a copy of the SAI Law in one of the official EU languages.

The State Audit Office was established in 1993 based on the State Audit Act. The Act follows the basic principles of the Lima Declaration, the key international document on the legal structure, position and activities of the state audit.

Running and management of the State Audit Office is entrusted to the Auditor General, appointed by the House of Representatives of the Croatian Parliament on 8th April 1994, for the term of eight years with possibility of reappointment.

In the process of passing the State Audit Act, two factors were taken into consideration, which determined the role, authority and organisation of the State Audit Office. The first was determined by the organisation of power in the state, based on the consistent observance of the separation of powers (three branches system of government) and the Office's independent character. The process of the Republic of Croatia's joining the international community, within which the state audit's role and mode of work have been defined, determined the second factor. During the process, the State Audit Office joined the International Organisation of Supreme Audit Institutions (INTOSAI) and accepted the INTOSAI's auditing standards, published in Croatian language in the Official Gazette.

The adoption of the INTOSAI standards as a normative determination of the mode of work, learning from experience of other countries as well as direct expert assistance, enabled the State Audit Office to overcome some unfavourable circumstances from the beginning of its work, such as lack of an adequate body or experienced audit experts in Croatia prior to its independence. On the ground of experience of others and consistent compliance with basic work principles, the State Audit Office was established as an independent and autonomous body, separate from the executive power. The Office reports only to the Croatian Parliament, a precisely defined responsibility that grants the Office high level of independence in its work.

The Statute of the State Audit Office as a basic normative provision was passed in compliance with the Act, together with the Ordinance on the Internal Organisation. The documents regulate the internal structure (implemented by the establishment of the Headquarters in Zagreb and twenty regional offices in the county centres), as well as the operations of individual units and their mutual relations, management and mode of their work, planning/completion of operations, and drafting of audit reports.

Tasks, responsibilities and remit of the Office, adjustment to the best European practice and International Auditing Standards

Tasks and responsibilities of the Office are determined by the State Audit Act¹, the text of which can be found on the enclosed CD. The Act provides for the audit of: public expenditures, annual accounts and financial transactions of the state and local/regional self-government units, legal persons partly or wholly financed from the state budget, public enterprises, companies and other legal persons in which the Republic of Croatia or local/regional self-government units have the controlling interest, and of the Croatian National Bank. By later amendments to this Act, tasks of the Office were extended to audits of ownership transformation and privatisation procedures. (See Annex 1)

By this Act, all current and capital expenditures financed from the state budget, from appropriate national funds, or from budgets of local and regional self-government units are deemed to be public expenditures.

Audit comprises:

- Examination of documents, deeds, statements, internal control and internal audit systems, accounting and financial procedures, and other records in order to determine whether annual accounts give a fair view of the financial position and results of financial activities in compliance with accepted accounting principles and standards;
- Examination of financial transactions in terms of lawful utilisation of funds, and
- Assessment of the efficiency and effectiveness of activities, as well as assessment of the efficiency in pursuing the objectives of a certain project.

The state budget, state funds, and budgets of local and regional self-government units are audited once a year.

Audit of the annual accounts in the public sector, units, local and regional self-government units, public enterprises, companies and other legal entities in which the Republic of Croatia or local and regional self-government units have the controlling interest, is performed in compliance with the Annual Programme of the State Audit Office or on request of the Croatian Parliament. The Annual Programme also determines the audit scope.

Certified state auditors - independent professionals, who hold certificates to this effect and meet other requirements under this Act, conduct audits. Should some specific problems arise during an audit procedure, the Office is allowed to engage an external expert.

Audits are performed in compliance with the established INTOSAI Auditing Standards. Besides, the Office has also translated and put into use the European Guidelines for the INTOSAI Auditing Standards, intended primarily for audits of the funds and activities of the EU, whether taken independently on the state level or jointly on the international level in co-operation with other supreme audit institutions.

The basic principles of the state audit, general standards, standards of work areas and reporting standards of state auditors are set out in the INTOSAI Standards, by which, however, they give only a general framework of the methodological approach.

¹ "Official Gazette" No. 70/93, 48/95, 105/99, 36/01, revised text: "Official Gazette" No. 49/03

To meet requirements for high professional knowledge and skills as well as high level of audit performance, various types of support are needed, such as continuous education and training, creation of various manuals, technical guidelines for work and implementation of the adopted standards.

For the purpose, the Office produced the Manual for State Auditors in 2000. The manual contains detailed descriptions of the audit procedures as well as technical guidelines covering individual audit areas, and provides cases from practice. It has a flexible character that allows amendments and improvements that reflect changes and latest trends in the audit methodology. The Auditor General established a special Working Group² for this purpose at the end 2002. The Manual for the Audit of Ownership Transformation and Privatisation and the Manual for IT Control Evaluation are also available.

Besides, there are various other guidelines and instructions that facilitate an auditor's work, alongside with available domestic and foreign literature on audit and accounting, including specific manuals of other state audits.

Major Auditing Processes

The audit cycle begins with the collection of information and with planning of annual audits, followed by audit preparation and conduct, and the cycle ends with the report to the Parliament and the general public and with the post-audit follow-up. The audit cycle is regulated by the State Audit Act, the Statute, the Ordinance on the Internal Organisation, the Audit Manual and other internal documents and guidelines.

The Auditor General passes the Annual Programme. The collection and systematisation of data for creation of the Annual Programme and competencies and responsibilities of particular auditors are set out in the internal document: "The Process of Planning the Annual Work Programme of the State Audit Office", which is an integral part of the Manual. The programme also defines who is in charge of what, when, how and why.

The beginning of an audit involves preparations i.e. studying of documents and general discussions with responsible officials of to-be-audited entities. An audit plan is then designed, and the audit scope, auditing methods and standards as well as auditing time are determined. The auditing process includes the study of business documentation, determination of statistical sample and collection of data that will enable the auditor to give a true and full view of the audited entity's business operations.

After completion of an audit, the auditors prepare a report on the established facts and evaluations in a fair and clear manner, restricted to essential issues. The guidelines for preparing of audit reports are given in the Manual. Every report has to be submitted to heads of departments, the assistant in charge of a

² The said can also be seen in the fact that the Office is very active in international fora, which implies that it is well informed on INTOSAI and EUROSAI standards:

- The Office is a member of INTOSAI since 1994 and of EUROSAI since 1996. Commitments arising from the membership call for continuous effort and involvement in the activities of the said organisations and their working groups. The Office participated at all congresses of the two associations, as well as at the meetings on the development of the state audit and the improvement of the public sector;

- The office fosters bilateral relations with other state audits in the form of joint seminars, meetings, exchange of experiences, documents and other information relating to audit activities;

- The Office is a member of the *Liaison Officera* group, founded on the level of states of Central and Eastern Europe, Cyprus, Malta, Turkey and European Audit Court. It also actively participates in the work of the Group and its working groups.

All the mentioned activities make a valuable contribution to the following of European best practice and ensure compliance of the work with international standards.

particular area, and to the Auditor General. After they examine and read the report and after the audited party responds in line with Lima Declaration and internal procedures of the Office, the report is sent to the representative of the audited party. The representative has a legal right to raise an objection within the term of eight days if disagreeing with the auditor's statements and findings. The matter is resolved by the Auditor General.

An Annual Report, consisting of all audits performed during one year, is drawn up at the end of the year. The Office submits some specific reports to the Parliament during a year, particularly those of interest to representatives and the general public.

The system of reporting to the Croatian Parliament on the subject of functioning of the local self-government is based on summarised reports on conducted budget audits of local and regional self-government units, submitted as a supplement to the SAO's budget audit report.

The other type of reporting consists of aggregate data on annual budget execution of local units on the county level. This type of reporting reflects the total financial strength of all the local units on the county level, namely the financing resources necessary for the execution of public authority given to the local units by the constitutional and legal provisions. This part also comprises all the information on activities of local units based on the SAO's orders, and flaws repeated on the county level are specified by type.

The described method of reporting to the Parliament provides transparent information about the local and regional self-government units that helps the government to improve the functioning of the local self-government system in the Republic of Croatia. On the local level, it enables more efficient, rational and beneficial use of budgetary resources for the purpose of fulfilment of all local public needs.

All reports are also released on the Internet. In addition to this, the Office communicates its results to journalists by sending important information about its activities to the central press agency, and through TV and radio interviews and appearances of the Auditor General.

The follow-up procedures represent the final phase of an audit cycle. Prior to each subsequent audit, the auditors must first check whether the audited party has implemented the recommendations of the previous period audit.

Independence

The State Audit Office is an independent institution both functionally and organisationally; it independently determines the manner and methodology of its work, and reports directly to the Croatian Parliament.

The Auditor General, appointed by the Croatian Parliament for the term of eight years, manages the Office. The conditions for relieving the Auditor General of duty before expiry of tenure are also laid down, thus assuring a higher level of independence and protection from possible external interference with his/her work.

Audits are conducted by certified state auditors, who are independent professionals. One of the essential indicators of their independence is the legal provision by which certified state auditors may not audit a legal person if they are members of its supervisory board or any other of its bodies; or participate in keeping its business books, or drawing up its annual accounts, as well as if they are spouses, or related in direct line as far as the fourth level of kinship and in the lateral line as far as the second level of kinship, or if they are guardians, adoptive parents, adopted children, or foster-parents of any of the legal representatives of the relevant legal person or of members of its supervisory board.

It is also worth mentioning that for audit purposes state auditors have legally guaranteed access to all necessary documentation, deeds, statements as well as other records and information.

Funds for the work of the Office are allocated from the state budget. The intention is, however, to show the funds in a separate part of the budget, the items not being determined by the Parliament, and with authority given to the Auditor General to dispose of the funds according to the needs of the Office (in the context of its work programme), while taking the obligation to assume full responsibility for expenses incurred.

Another point essential for judging the level of state audit independence is non-limitation and reporting freedom. Citizens have access to audit reports and to discussions and conclusions about them via TV, radio and other media. The Office has a web site with basic data about it, as well as audit reports and the Office's annual work reports, so that all its reports are available to the general public.

Co-operation of the Office with the Croatian Parliament and the Ministry of Finance

According to the State Audit Act, the Office is obliged to submit annual work reports and annual audit reports to the Croatian Parliament.

More than once a year the Office submits to the Parliament some specific reports of particular interest to the members of the Parliament and the general public. In such case, submitting of the reports is arranged with the President of the Croatian Parliament and Parliamentary Committee (or Committees).

First, parliamentary committees discuss and draw conclusions about the submitted reports, and then they are brought to the Croatian Parliament. The parliamentary debate starts with an opening address during which the Auditor General gives a short account of the Office's activities over the past year as well as of the most important audit findings. After the debate, in line with the State Audit Act the Croatian Parliament adopts or rejects the Annual Reports of the State Audit Office, thus evaluating the Office's work as either positive or negative.

Parliamentary Committees discuss about the SAO's reports in the presence of the Office representatives who, if necessary, explain particular points of audit findings or parts of the reports.

The State Audit Office has also other contacts with the Croatian Parliament, aimed at maintaining good relationship at all levels.

The State Audit Office co-operates with the Ministry of Finance on two levels, i.e.: firstly, as with the state

budget user, subject to the obligatory annual audit, and secondly, as with an institution that, like the Office itself, is a part of PIFC and as such contributes to the improvement of the country's public financial control system.

2. Does the SAI benefit from community funds/programmes to develop future strategies to reform, has it already developed a strategy paper for its future tasks?

The fact that the Republic of Croatia has made its strategy of joining the European Union into one of its basic foreign policy goals implies the compliance and adjustment of the SAO's work methods and rules with standards and the best practice of the European Union. For the purpose, the State Audit Office has initiated several activities.

The first activity was SAO's self-assessment carried out during 2001, in line with the Lima Declaration, INTOSAI Auditing Standards and European guidelines for their implementation. The purpose was to analyse the current status, to diagnose advantages and disadvantages in the Office's organisation and mode of work in order to take appropriate measures for removing disadvantages and for using advantages in the best possible way. After that, the Office entrusted the external independent assessment of its work to SIGMA. SIGMA carried out the assessment during 2002 and prepared the relevant report. The purpose of the assessment was to get an independent evaluation as well as recommendations for possible changes and improvements of the Office's work in order to achieve maximum compliance with international standards and the best European practice.

The next activity was the development of an Integral Strategic Management Process.

Based on the Office's vision and mission, the goals, strategy and policy of the State Audit Office were set and drafting of the five-year Strategic Development Plan was initiated. The primary idea behind the drafting of the Plan was to strengthen the Office by increasing its independence, effectiveness and quality of work, with the ultimate goal to reinforce the financial control system in the Republic of Croatia as well as the overall public responsibility.

Based on an earlier self-assessment, the Peer-Review (SIGMA's recommendations) and other analyses, the Strategic Development Plan was drafted and adopted by the Auditor General in May 2003. It includes all the components of key importance for the successful achievement of goals³. The implementation of the Plan has already started and is proceeding in line with an activity schedule (twining fiche, justification).

The Office will perform a part of development activities, while the other part will be carried out through the Twinning Project. The Project will reinforce those activities, enabling the State Audit Office to provide Croatian Parliament (Sabor), other interested parties and the general public, and in the near future the relevant European institutions as well, with information on the state administration efficiency. The preparation of the Project, in co-operation with the Delegation of the European Commission in the

³ The principle components of the Strategic Plan are the following: legal framework strengthening; further development of audit methodology; audit cycle analysis; support process development; staff structure development; further development of external co-operation.

Republic of Croatia and with SIGMA, is under course, while the CARDS Programme is expected to provide means necessary for its implementation.

3. Could you describe in detail what procedures have been set up for adequate co-operation between the Croatian Supreme Audit Institution and the organisation(s) responsible for PIFC, e.g. for avoiding duplication of audit tasks at the same time in the same locality, for informing each other about perceived control/audit weaknesses in government-expenditure/income, for the way of reporting audit findings to each other, for training or any other kind of regular co-operation?

In order to establish and maintain the best possible co-operation, the Office holds regular meetings with the Ministry of Finance (especially the Department for Budgetary Supervision) and the Government Office for Internal Supervision (established in mid-2002) to discuss co-ordination of plans, i.e. control and audit scopes. Joint training programme for the involved staff has also been scheduled.

Besides, the Office successfully co-operates with internal audit units and has access to all their plans, programmes and reports.

Thus the Office attempts to avoid overlapping of work and tasks as well as save means and improve effectiveness of all institutions responsible for control and audit in the public sector.

Written or prescribed procedures do not exist as yet, but their adoption and implementation through mutually co-ordinated drafting of the public control systems policy (PIFC Policy Paper) has been planned. The document will be based on detailed analysis of all current internal and external control systems in the public sector, both on the state and local (regional) level. Support to the Ministry of Finance was extended through the CARDS project "Development of Public Internal Financial Control and Internal Audit" in the budget year 2002, with its two components:

- Component 1 – Development of public internal financial control
- Component 2 – Development of internal audit

Current activities within the said project provide answers or are relevant for the questions under the following part B (questions from 1 to 18).

B. Public Internal Financial Control (PIFC)

General

1. Which ministry (and which organisation within the ministry) has the responsibility to develop, harmonise, co-ordinate and check the following elements of PIFC in Croatia? On the basis of which law (please provide a copy in one of the official EU languages)?

- a) Financial management and control systems (managerial accountability, accounting, ex ante financial control, ex post financial control, inspection);**
- b) Internal audit (comprises financial, systems-based, performance and IT-audits).**

The State Treasury and the Directorate for Internal Audit and Control are the organisational units of the Ministry of Finance responsible for the development, harmonisation, co-ordination and checking of PIFC elements.

The Treasury's Budgetary Supervision Department is in charge of budgetary supervision with the aim to ensure lawful and purposeful utilisation of budgetary resources and also follows and gives opinions on draft legislation and other regulations influencing the state budget execution.

The Directorate for Internal Audit and Control is the Ministry's administrative unit in charge of continuous and comprehensive supervision of the Ministry's operations. Its tasks include evaluation and improvement of risk management efficiency, internal control system and the management process of the Ministry and all of its organisational units. The Directorate supervises the work of persons with special authorities and responsibilities, harmonises activity programmes, develops standards and methodology of work, examines, analyses and evaluates all business functions within the competence of the Ministry.

The financial management and control system as well as the internal audit system is regulated by the following acts, provided on CD attached to this Chapter:

- Budget Act (Off.Gaz. No. 96/03) ([See Annex 2](#))
- Act on Execution of the State Budget of the Republic of Croatia for the Year 2003 (Off.Gaz. No. 154/02), ([See Annex 3](#))
- The State Administration System Act (Off.Gaz. No. 75/93, 48/99, 15/00, 34/01), ([See Annex 4](#))
- Act on the Structure and Scope of Ministries and State Administration Organisations (Off.Gaz. No. 48/99, 15/00, 20/00), ([See Annex 5](#))
- Act on Civil Servants and Civil Service Employees (Off.Gaz. No. 27/01), ([See Annex 6](#))
- Regulation on the Principles of the Internal Organisation of the State Administration Bodies (Off.Gaz. No. 43/01), ([See Annex 7](#))
- Regulation on Internal Organisation of the Ministry of Finance (Off.Gaz. No. 70/01), ([See Annex 8](#))
- Regulation on the Main Treasury Book System and Methods of Managing the Single Treasury Account (Off.Gaz. No. 97/95), ([See Annex 9](#))
- Ordinance on Budget Supervision and Internal Supervision (Off.Gaz. No. 92/96) ([See Annex 10](#))
- Instruction on Implementation of the State Budget Execution from the Single Account of the Treasury (Off.Gaz. No. 4/01) ([See Annex 11](#)).

2. Has this Ministry or organisation written a Policy Paper or Strategy Paper, describing the present situation of PIFC in Croatia and analysing the adequacy of these systems? Does this paper contain recommendations for the future development of PIFC in Croatia? Has this paper been endorsed by the Ministry of Finance and by the Council of Ministers? Has the paper become a general policy carried by the government? Please, provide copy in one of the official EU languages.

The strategic document that describes the present PIFC situation in Croatia is not currently available. The document under the title: Policy and Vision of the Internal Audit, signed by the Finance Minister in July 2003, gives recommendations for the future PIFC development in Croatia on the subject of internal audit development. (See Annex 12)

A working group in the Ministry of Finance has started drafting a document that describes the present PIFC situation in Croatia. The first draft of the document is expected to be completed by the end of 2003. Means and methods of incorporating the latest achievements of the EU into the Croatian legislation still remain to be defined.

3. Does PIFC in Croatia cover the control and audit of income (customs and tax authorities), expenditure (commitments, tender and contracting procedures, disbursements and recovery of unduly paid amounts), assets and liabilities? Does PIFC cover all parts of the national (and lower authorities') budgets and if not, which parts are excluded and covered by other institutions?

There is no single public internal financial control (PIFC) in the Republic of Croatia organised as a comprehensive financial control system. Instead, some public bodies, each within the scope of its competence, carry out the control and audit of revenues, expenditures, assets and liabilities. These bodies are organised under the Ministry of Finance, i.e.: Tax Administration, Customs Administration, Procurement Administration (the part responsible for the control of procedures but not the financial control), Department of Budgetary Control, Directorate for Internal Audit and Control.

Also established and operating are two government offices, i.e. the Office for Internal Supervision and the Office for State Property.

The State Audit Office as a supreme audit institution in the Republic of Croatia and being an external audit body performs ex-post controls of all revenues, expenditures, assets and liabilities on both state level and the level of local (regional) self-government.

The Tax Administration

Pursuant to the Regulation on the Internal Organisation of the Ministry of Finance the Tax Administration was set up as an administrative organisation. According to Article 2 of the Tax Administration Act (Official Gazette No. 67/01, 70A/01 and 94/01) its principal task is to implement tax and other regulations on payment of compulsory contributions.

Article 3 of the Act, stipulating that the Tax Administration performs administrative and other professional work such as, has more closely defined the scope of the Tax Administration's activities:

- Receiving tax returns; entering tax liabilities into tax accounts; collecting and refunding taxes; establishing the timeliness, legality and regularity of submitted tax returns; establishing the tax base and tax liability; carrying out the inspection supervision; conducting seizures of assets for the purpose of tax collection; filing charges to initiate misdemeanour and criminal proceedings; pursuing tax violation cases at the court of first instance; giving opinions on the enforcement of regulations in

individual tax cases; international legal assistance in tax matters; studying tax systems and co-operating with tax authorities of other countries; monitoring enforcement of tax treaties; issuing documents on facts kept in the official records of the Tax Administration; development and use of the tax information system; authorising and supervising games of chance, entertainment games and game shows;

- Issuing authorisations or stamps or other labels, monitoring of production, turnover and use of individual products, in line with a special act that regulates individual tax type, conducting seizures of assets in order to collect other public duties upon request of state administration bodies and courts of law based on special laws.

Activities of the Tax Administration also include control of computation, collection and seizure of assets as a means of compulsory contributions collection, filing misdemeanour charges and pursuing misdemeanour cases related to violation of compulsory contribution regulations.

The Tax Administration collects and processes data on calculated and collected taxes and compulsory contributions, and proposes changes in the tax policy and tax and other regulations for the purpose of the tax system improvement and more efficient collection of taxes and compulsory contributions.

The Tax Administration may carry out tasks related to recording, establishing, controlling, collecting and seizing of assets for the purpose of tax collection entirely in the domain of the local and regional self-government units, as well as collection of other public imposts and other duties stipulated by the law.

Conditions and scope of carrying out the tasks from paragraph 4 of this Article are regulated by the decision of the representative body of the local or regional self-government unit or a body competent for other public duties and other statutory duties, subject to the approval of the Finance Minister.

The General Tax Act (Official Gazette No. 127/2000, 86/01-correction and 150/02) governs the relationship between taxpayers and tax authorities that enforce regulations on taxes and other public duties (if not otherwise regulated by special acts on individual tax types and other public duties) and represents the common base of the tax system.

Article 3 of the General Tax Act defines the tax authority as a state administration body, a regional self-government body or a local self-government body responsible for the calculation, supervision and collection of taxes and other public duties.

Pursuant to Article 43 of the General Tax Act, tax assessment and collection is the responsibility of the Ministry of Finance, to be more exact its administrative organisations – Tax Administration and Customs Administration (Financial Police was abolished on 24 July 2001 by the Act on Abolishing the Financial Police Act). Tax calculation and collection activities stipulated by decisions of representative bodies of regional and local self-government units are entrusted to their tax authorities. Subject to a contract, these activities may be entrusted to the Tax Administration.

Article 97 of the General Tax Act defines the inspection supervision carried out by tax authorities in line with the act regulating individual tax type. Within the meaning of this Act, the inspection supervision is a part of the tax law relations in which a tax authority conducts procedure for checking and establishing facts that are material for imposing levy on taxpayers and other persons.

According to the provisions of Article 101 of the General Tax Act, inspectors and other authorised civil servants conduct the inspection supervision if stipulated by the act regulating individual tax type.

The above-said clearly shows that supervision service and departments, or rather inspectors, carry out the external inspection supervision at the taxpayers' premises.

Activities within the scope of the Tax Administration are carried out through twenty regional offices and 121 branchoffices.

Based on Article 33 of the above-mentioned Regulation, an Independent Internal Supervision Department was established to carry out administrative and other professional work related to:

- Internal supervision of the correct, timely and legal work of the Head Office staff and staff of regional offices and their branches,
- Inspection supervision of individual cases based on supervision rights,
- Undertaking measures of detection, reporting and instituting legal proceedings against illegal activities.

The Department is organised into two sections: the Section for Internal Supervision of Organisational Units and the Section for Internal Supervision of Tax Assessment and Collection.

Activities of the Independent Internal Supervision Department principally include supervision of staff work, inspection supervision and measures to remove illegal activities and institute legal proceedings. Established facts are recorded in the minutes and measures for removal of irregularities proposed or instructions for further procedure given. The Regulation on the Internal Organisation of the Ministry of Finance does not stipulate obligatory control of correct budget use by the two sections, although the current Ordinance on Internal Supervision provide for internal control of correct budget use as well as observance of law and regulations.

The Customs Administration – Internal control of public finance with respect to control and audit of the Customs Administration revenues.

Conducting financial control activities, i.e. control and audit of revenues collected by the customs authorities, is regulated by provisions of the Customs Act (Official Gazette No. 78/1999 through 47/2003), of the Regulation on the Customs Act Implementation (Official Gazette No. 144/1999 through 110/2001), the Customs Service Act (Official Gazette No. 67/2001) and the General Tax Act (Official Gazette No. 127/2000).

Among other things, these regulations define obligations, authorities and control procedures of the revenue collection, which is in both narrower and broader sense within the competence of the Customs Authorities.

According to the Regulation amending the Regulation on Internal Organisation of the Ministry of Finance (Official Gazette No. 71/2003), a Sector for Review and Subsequent Control operates within the Customs Administration of the Republic of Croatia. The Sector has recently formed the Risk Assessment and Selectivity Department.

The Customs Administration is organised into 10 Customs Offices with Departments for Review and Subsequent Controls in their structure. Larger Customs Offices also have Anti-Smuggling Departments, while smaller carry out the anti-smuggling activities within the frame of the Department for Review and Subsequent Control.

Anti-smuggling activities also largely contribute to the prevention of the underground economy and to revenue collection.

The said Sectors and Departments also control observance of the debt-payment deadlines, i.e. deadlines for payment of customs duties, taxes and excise duties, as well as the correct customs clearance procedure in all elements affecting the amount of the customs and tax debt, for the purpose of establishing a uniform procedure across the customs service. Documents submitted in the customs procedure and data in these documents are checked, while particular attention is paid to the control of correct customs value, goods classification according to the Harmonised System, compliance with treaties on origin of goods, use of exempt goods, as well as control of preferential procedures approved by the Customs Administration to creditworthy enterprises.

An important segment in the control of the revenue collection is the subsequent control in enterprises based on the provisions of the Customs Act of the Republic of Croatia, which is almost identical to the provisions of the EU Customs Act and is effective since 1 January 2000. Implementation of selectivity and risk assessment method (for the time being only on the local level) has increased the number of controls conducted in enterprises for the purpose of comparing the compliance of data submitted to customs authorities by a consignor or consignee with the enterprise's book entries.

Customs authorities also control the collection of excise duties (special taxes) at import and since 1 January 2002 also in the domestic trade.

Control of the correct calculation of revenues from customs duties, taxes and excise duties also includes administrative procedure decisions on subsequent collection or refund of customs debts, which is either based on control results or on request of the interested party. Decisions are passed in line with provisions of the Customs Act or of the Act on General Administrative Procedure.

By order of the Customs Administration Director, the Internal Control Department, organised under the Headquarters, monitors manifestations of the staff's violation of customs service regulations and rules. To this end, the control of legal customs staff work is conducted to establish whether an abuse of duty was committed. In case of a minor abuse, an employee's direct superior suggests disciplinary proceedings, while the Director of the Customs Administration or a person authorised by the Director initiates and pursues the proceedings and takes decision.

The Director of the Customs Administration or a person authorised by the Director suggests disciplinary proceedings for a major abuse of office. Disciplinary Tribunal institutes, pursues and renders decisions in disciplinary proceedings of major abuses (Article 66 of the Customs Service Act).

At this stage, expert analyses for filing misdemeanour, criminal and disciplinary charges are being defined. Also, there are plans to make a study and assessment of customs staff exposure to corruption and organised crime.

Based on the State Audit Act, the State Audit Office as the supreme audit institution of the Republic of Croatia has wide authorities on all levels, in all areas and at all phases of business activities. Consequently, external audit covers, in terms of the State Audit Office's ex post control, all revenues, expenditures, assets and liabilities of the state as well as local and regional self-government units.

Audit of the state budget covers all items of the budget, accounting procedures and operations through foreign currency accounts, loans, debt repayments, issued guarantees, state treasury system project, budget expenditures, and budgetary control system (internal control and internal audit). During audits, special attention is paid to the investment projects and to the public procurement procedures.

The same principle applies to the audit of budgets of local and regional self-government.

Payment and Recovery of Unduly Paid Amounts

The Act on Execution of the State Budget for a certain year provides that undue payments or overpayments have to be recovered from budgetary revenues. After a checking procedure, the Ministry of Finance renders a refund decision and the Financial Agency makes the payment.

The Tax Administration within its competence and on payer's demand, first checks and then refunds unduly paid amounts either by remittance to the payer's giro account or by money order.

If according to a tax authority's records the payer has outstanding debts, these are deducted from the refund in accordance with provisions of Article 113 paragraph 6 of the General Tax Act.

Taxpayers are notified about the deduction and the debt thus covered, and if necessary the relevant decision is rendered.

Pursuant to the Ordinance on Financial Reporting in Budgetary Accounting (Official Gazette No. 92/94, 3/03, 12/03), the set of annual accounts submitted by all budgets and budget users includes the Liability Report.

In accordance with Article 22 of the Ordinance, users of the state budget submit their Liability Reports once a month, while the budget and budget users of the local and regional self-government units attach the Report to their quarterly financial statements and annual accounts.

The Liability Report provides an overview of total liabilities, both settled and outstanding, of a budget or a

budget user at a certain point in time according to maturity dates and specified structure (amounts owed to employees; material expenses; financial expenses; subsidies; compensations to citizens and households; other liabilities; liabilities for procurement of non-financial assets; for financial assets).

The Procurement Administration

The public procurement area in the Republic of Croatia is regulated by the Public Procurement Act (Official Gazette No. 117/01), effective as of 1 January 2002, and two subordinate regulations, i.e. the Regulation on the Procedure of Procurement of Goods, Works and Services and the Regulation on Public Procurement Announcements and Records (Official Gazette No.14/02), effective since 14 February 2002. The current system of control in this field, conducted by the Procurement Administration of the Ministry of Finance, is a transitional solution pending the establishment of the Public Procurement Office and the State Commission for Control of Procedures. Along with control of public procurement procedures, the Public Procurement Administration also provides training and professional assistance to interested parties, the tasks that are not compatible with the activities of control and responding to complaints in the public procurement procedure.

The Procurement Administration is authorised for implementation, supervision and application of the Public Procurement Act and secondary legislation and in line with this authorisation gives approvals, instructions and opinions on implementation of the Act. The Department collects, records, processes and analyses procurement data, lodges complaints with the misdemeanour court or files criminal charges at the State Attorney's Office, participates in drafting acts and secondary legislation on general conditions, rules and procedures of procurement; draws up and carries out training programmes and promotes law, participates in the procurement-related work of international institutions and carries out other work within its scope.

The normative structure of the Public Procurement Act ("Official Gazette" No. 117/01) bases the legal protection on two regular legal administrative expedients (objection and complaint) and one regular legal remedy – to institute administrative dispute proceedings.

In special cases, acting on petition of any interested party, the Supervisory Department of the Procurement Administration may control the legality of a conducted procurement procedure.

The procurement procedure has to be transparent and non-discriminatory. To this end, in cases of rights violation, procedures of control and legal remedy have to be accessible to all parties. Lack of legal remedies decreases the number of potential bidders. Both control and legal remedy-related procedures have to be efficient and rapid in order to meet the requirements of procurement efficiency and cost-effectiveness with the goal of more effective use of budgetary and other resources as well as promotion of free market competition.

Due to all the above reasons, establishment of an independent professional body, i.e. a five-member State Commission, is a precondition of an efficient legal protection. The president, who qualifies for a judge, and members of the Commission would be appointed for five-year periods and relieved of duty by the Croatian Parliament on suggestion of the Government. The State Commission would report to the Croatian

Parliament (Sabor). According to the Act on the State Commission for the Control of Public Procurement Procedures, the complaints procedure would no longer be free of charge; instead the parties would bear the costs. The party whose complaint proves to be unfounded would bear both its own and the costs of the other party, which is an established practice in the legislation of EU members. This would discourage unfounded complaints lodged by abusers of the right to free-of charge filing. The Act on the State Commission for the Control of Public Procurement Procedures regulates the establishment, organisational structure, scope and authorities of the State Commission, while harmonising the Croatian public procurement system with the EU legislation and open market principles. Also, the draft of the Regulation on Investment Projects Preparation, Evaluation and Execution is in its final phase and will be submitted to the Croatian government for further procedure. The Regulation provides highly professional economic substance.

Drafting of the Regulation on General Provisions for Procurement of Goods, Services and Works is also underway. However, since this Regulation is an exceptionally extensive document, a more sensible approach was adopted, i.e. to first amend the Public Procurement Act.

It is also necessary to develop a new public procurement information system in order to establish the necessary co-ordination between the Public Procurement Office and the State Commission for the Control of Public Procurement Procedures.

Thanks to a higher level of computerisation, the Public Procurement Office will be able to maintain annual records on procurement plans of addressees of the Act, as well as files on completed procurement procedures and files on concluded contracts.

The Budgetary Control Department

By the Regulation on the Internal Organisation of the Ministry of Finance (Article 7, item E) (Official Gazette No. 70/01 and 71/03) the Budgetary control Department was established as an independent body of the State Treasury with the task to ensure lawful and purposeful use of budget resources, as well as to follow up and give opinions on draft acts and other regulations affecting the state budget execution.

Articles 133, 134, 135 and 136 of the Budget Act (Official Gazette No. 96/03) (See the supplement), define the budgetary control, its scope and execution, as well as special authorities and responsibilities of persons in charge – the budgetary control inspectors.

The Act defines the budgetary control as the procedure of supervising the legality, purposefulness and timeliness of budgetary resources use, stipulating measures for the elimination of illegal and irregular acts as well as corrective measures. It comprises the control of the accounting, financial and other business documents of budget users.

The Budget Act (Article 133, paragraph 5, and Article 147) stipulates the obligation of the Minister of Finance to pass the budgetary control regulations defining the goals, scope, contents, manner and conditions, as well as persons authorised for the budgetary control, within three months from the Act's entry into force.

New budgetary control ordinance and ordinance on identification documents and badges of budgetary control inspectors are in their drafting phase. With reference to the budgetary control ordinance, two internal documents of the Budgetary Control Department will also be drawn up, i.e. the Budgetary Control Instructions and the Work Methodology of Budgetary Control Inspectors.

The current Ordinance on Budgetary Control and Internal Control (Official Gazette No. 92/94) (see the supplement) will stay in force until the adoption of the new ordinance. The current Ordinance defines goals, scope, content, manner and conditions of the control as well as responsibilities. Pursuant to the Ordinance, the budgetary control takes place at the premises of the state budget users, the control of the use of non-budgetary funds takes place on the state level and of budgetary funds in local and regional self-government units as well as in public and other enterprises using the state budget funds.

The budgetary control follows the schedule adopted before the beginning of the relevant fiscal year, while a part of it is exercised on order of the State Treasury manager or based on relevant reports.

It is carried on a continuous basis over the business operations in the current fiscal year, and if necessary, for the previous period as well. The budgetary control can take place even before a financial transaction is completed or a business event recorded. As a rule, the responsible person in the relevant organisational unit has to be notified in advance; however, when circumstances so require, there may be no prior notifications.

Minutes on the conducted budgetary control are submitted to the head of the relevant organisational unit, to the directorates in the Ministry of Finance responsible for budget preparation and execution, and to the Minister of Finance or her/his deputy. Should irregularities found in the course of budgetary control indicate that a misdemeanour or criminal act may have been committed, the minutes are submitted to authorities competent for instituting misdemeanour or criminal proceedings, and to the State Audit Office.

Annual Report on operations of the Budgetary Control Department is submitted to the State Treasury manager and to the deputy of the Minister of Finance.

Out of nine jobs in the Department specified by job classification, only four have been filled up so far (head and three senior inspectors). The head of the department was appointed on 1 April 2003. Last year, the three senior inspectors completed ten budgetary controls. Recruitment of employees for the remaining jobs is underway, and is expected to improve the efficiency and quality of the Department's work.

Directorate for Internal Audit and Control

(Please refer to items 1 – 18 for answers on the Internal Audit,)

The Office for State Property

The Office for State Property was established according to the Regulation of the Government of the Republic of Croatia on the Office for State Property ("Official Gazette" No. 70/2001, 58/2002 and 106/2003).

The Office is organised into four departments:

- Department for Property Recording and Legal Affairs
- Department for Property Maintenance and Investments
- Department for Financial and Accounting Operations
- Department for Official Residences

The Office renders professional services to the government of the Republic of Croatia, consisting of recording and maintaining the property owned by the Republic of Croatia. Property includes real estate, movables, rights and obligations.

Ordinance on the Register of Property Owned by the Republic of Croatia (Official Gazette No. 30/2001)

defines how the records have to be maintained, types of data and data providers. The Register is adjusted to keeping on electronic medium by means of web application.

Along with maintaining records, the Office is in charge of drafting decision proposals for all affairs related to property-rights of the Republic of Croatia, such as purchasing, sale, replacement, co-ownership dissolution, establishing usufruct rights and building rights, issuing cancelling clauses, registration titles, site and building permits, allocating business premises to state authority bodies etc. In most cases the Government's Commission passes the final decision for Management of Property of the Republic of Croatia, authorised by the Government to manage and dispose of property owned by the Republic of Croatia, or the Government itself.

An important segment of the Office's work is property maintenance, both of official residences and premises accommodating state administration bodies. Besides, the Office takes care of apartments for official use and business premises, and supervises the rent collection.

The Government's Internal Control Office

The Internal Control Office of the Government of the Republic of Croatia was established in accordance with Article 26, paragraph 1 of the Act on the Government of the Republic of Croatia (Official Gazette No. 101/98 and 15/00), with the task of controlling the financial and material operations of the state administration bodies and the government's professional services, i.e. it controls:

- Whether budgetary resources are used for purposes and in the manner provided by acts and regulations;
- Whether other assets (real estate and movables) are acquired, managed, used and disposed of for the purposes and in the manner provided by acts and other regulations;
- Whether the use of assets is purposeful and cost-effective.

The Office conducts controls according to the plan and, as a rule, notifies in advance the manager of the relevant government body. Reports on the completed controls are submitted to the Prime Minister. The Office submits its Annual Report to the Croatian government.

4. How is PIFC (control and audit) organised in lower authorities and municipalities in as far as they benefit from national budgetary funding? And from their own funding?

Organisation of control in lower authorities and competencies for executing the control are regulated by the following acts and regulations:

- The State Administration System Act (Official Gazette No. 75/93, 48/99, 15/00,127/00 and 59/01), Articles 23-33 and Article 38, item 5.
- Act on the Organisation and Scope of Ministries and State Administration Organisations (Official Gazette No. 48/99, 15/00 and 20/00), Article 5,
- Regulation on Internal Organisation of the Ministry of Finance (Official Gazette No.70/01 and 71/03), Article 7, item E,
- Budget Act (Official Gazette No. 96/03) articles 133, 134, 135, 136.

- State Budget of the Republic of Croatia for a specific year,
- Act on the Execution of the State Budget of the Republic of Croatia for a specific year,
- Local and Regional Self-Government Act (Official Gazette No. 33/01, 60/01, 106/03), Articles 71 and 72,
- Act on the Financing of Local and Regional Self-Government Units (Official Gazette No.117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01), Articles 60 and 88,
- Regulation on Settlement Aid Calculation for Decentralised Functions of the Local and Regional Self-Government Units for a specific year,
- State Audit Act (revised) (Official Gazette No. 49/03),

The Ministry of Finance, or rather inspectors of the Budgetary Control Department, control the use of state budget resources in the local and regional self-government units, as well as adoption of their budgets, their borrowings and state guarantees given for the purpose, as provided by the Plan of the Budgetary Control Department for the current year.

Line ministries and inspectors of the Budgetary Control Department supervise the financing of decentralised functions and expenses of elementary and secondary education, health and social care that have been transferred from the state budget to local and regional self-government budgets.

The inspectors carry out complete budgetary control (revenues, expenses, public procurement) of local and regional self-government units as well. Their authority for such controls ensues from: the Act on the Organisation and Scope of Ministries and State Administration Organisations, the Regulation on the Internal Organisation of the Ministry of Finance, the Act on Local and Regional Self-Government, and the Act on Financing of Local and Regional Self-Government Units.

Public needs on the local level are taken care of by 568 units of local and regional self-government, i.e. twenty counties, 122 towns, 423 municipalities and the City of Zagreb, which is the capital of Republic of Croatia, and a special territorial and administrative unit.

Once a year, the State Audit Office (SAO) carries out the financial audit and the audit of business activities of all local and regional self-government units. All items of their budgets are audited, regardless of whether they are financed from the state budget or from their own funds. To be more specific, auditing budgets of local and regional self-government units comprises the business activities audit and the annual accounts audit (financial audit).

The audit of business activities includes budget submission and execution to determine the regularity and compliance with applicable laws, as well as financial documents and financial transactions. Thus, this audit covers all budget auditing aspects of the local and regional self-government units established by the methodology, from accounting principles, planning, revenue and income realisation, to expenditures, investments, loans, receivables and payables. All these elements are evaluated comprehensively and an opinion on whether public needs have or have not been met in individual local units is given. Therefore, apart from the regularity audit, the performance audit is also carried out on the level of local budgets.

Along with business activities audit, the audit of annual accounts is carried out in the local and regional

self-government units, as regulated by the provisions of the State Audit Act and in compliance with the INTOSAI Auditing Standards.

The audit of annual accounts includes the submission and execution of budget to determine the regularity and compliance with applicable laws.

As provided by the INTOSAI Auditing Standards, regularity audits are considered to be an essential part of the state audit, based on which the completeness of local budgets is evaluated and the representative body is furnished with information about the financial resources and requirements for the fulfilment of local public needs.

Annual accounts, prepared according to the accounting principles, reflect financial transactions of local units, and comprise all aspects of the local budget execution.

Annual accounts are also the basis for the annual budget accounting of local and regional self-government units, which is submitted to the representative body of a local unit not later than by the end of the current year for the previous year.

The following annual accounts are submitted to the SAO: the balance sheet, statement on revenues/expenditures, income/expenses, cash flow statement, statement on changes in value and on volume of assets and liabilities, statement on the realisation of own income and expenses and notes to the annual accounts.

Methodological approach to writing reports on audits of annual accounts of the local and regional self-government units is identical to writing reports on the performed audits of financial transactions, thus providing the same level of information and data on all the local and regional self-government units.

All audited elements from both types of budget audits of the local and regional self-government units are summarised in a Finding Report and presented in an accurate, fair and concise manner, with recommendations that indirectly represent the opinion of SAO about the accuracy and completeness of annual accounts and the efficiency of public expenses execution on the local level.

5. Could an overview be given of any weak points in the areas mentioned under question 3 above, as perceived by the Ministry or other parties (like the Supreme Audit Institution, the Treasury or the Croatian Parliament) that need further consideration for improvements in the future?

Here is an overview of weak points from the areas mentioned under the question 3, as perceived by the Ministry of Finance, that need further considerations and improvements in the future:

- In view of the fact that several government bodies are in charge of the internal financial control, better co-ordination of their work, exchange of information and submission of control reports seems to be required. Besides, within the Ministry of Finance there is a need for uninterrupted connection and information/data exchange between the Sector for the Preparation of the State Budget, Sector for the Execution of the State Budget, Directorate for Internal Control and the Budgetary Control Department. This would provide timely information, a prerequisite of an efficient budgetary control as an ex ante financial control;

- The legislation should be harmonised in a manner that would positively determine competencies of the bodies in charge of the internal financial control, in order to avoid repeating controls of some areas at the expense of others;
- According to the current legislation, the control of budget revenue generation has not been systematically and sufficiently regulated from the aspect of actual revenue generation compared with the budget plan, definition of compulsory budget contributions, or forced collection of these contributions (proceeds from sale of flats with tenancy rights, compensation for exploiting mineral raw materials);
- Inadequate control and analysis of goods and services procurement procedure as well as of spending of budgetary resources transferred from the accounts of state administration bodies to end users;
- The Budgetary Control Department should be better equipped and legislation should positively define its competencies for ex ante and ex post financial control for the purpose of ensuring lawful and purposeful use of budgetary resources.

Based on experience, the State Audit Office specifies all weaknesses and irregularities in operations of audited entities (whether on the state or local level) in individual audit reports as well as in the Annual Audit Report. The Annual Audit Report gives summarised review of the most significant and most frequent shortcomings, irregularities and/or failures on the level of the state and local/regional budgets.

As far as this question is concerned, in its reports the State Audit Office has already stressed the need for a better co-ordination between government administration bodies on all levels, with special emphasis on the need for a better and closer organisation of the internal audit function. Namely, the Office is aware of the fact that an adequate internal audit organisation inside those budget users, whose size justifies its establishment, could considerably improve the effectiveness and efficiency of their operations. This could also save the Office's time and resources and enhance its effectiveness. Therefore, the Office is continuously advocating the recognition of the internal audit in this area. For the purpose, the Office intensifies its efforts to familiarise managers with the basic features of the internal audit, presents the scope, implementation benefits as well as the potential status of the function in the organisational structure of a budget user. Furthermore, the Office believes that the legislation on organisation and functioning of the internal audit of both budget users and not-for-profit organisations should be harmonised, and that common methodology, guidelines and procedures should be established to improve the function, while internal audit employees should receive the necessary training.

6. Could information be provided on the salary levels of the public control and audit staff? Are there any other income-elements not deriving from the national budget, either for control/audit staff or organisations? Is it difficult under the present salary regime to find suitable staff for these functions?

The salaries of all employees in the State Audit Office are strictly calculated in accordance with the Civil

Servants Act. A non-budgetary income (own income) for the Office itself or for salaries of state auditors does not exist.

It has always been difficult for the Office to find experienced and qualified state auditors because of:

- the current pay system, and
- lack of expertise, i.e. specific training in the state audit area, this being a completely new profession in this country.

Salaries and other earnings of the Ministry's control and audit staff are regulated by the Act on Civil Servants and Civil Service Employees (Official Gazette No. 27/01), Regulation on Job Titles and Job Complexity Coefficients in the Civil and Public Service (Official Gazette No. 37/01, 38/01) and amendments to the Regulation, as well as by the basic and branch collective agreement for civil and public service servants and employees (Official Gazette 3/02).

Levels or average amounts of the control and audit staff salaries are not separately analysed but rather incorporated in the statistical interpretation of the whole group of state administration salaries.

In the Republic of Croatia, these salaries are financed exclusively from the state budget; i.e. there is no other source of financing.

Present economic and social situation in the country makes it difficult to find suitable staff for the job. Therefore, efforts are being made to improve this situation through vocational training, employee remuneration system, workplace modernisation and computerisation, etc.

Legislation

7. Please, provide the following documents in one of the official EU languages, if available:

a) Framework Law for PIFC

b) Specific Laws on FMC and IA (implementation laws)

c) Tertiary regulations, like manuals for FMC and IA, IA Charter, Codes of Ethics for FMC and IA, Audit trails

The CD attached to this Chapter contains the following:

- a) Framework Law for PIFC
 - Budget Act (Official Gazette No. 96/03), ([See Annex 2](#))
- b) Special laws: Act on Financial Management and Control (FMC) and Internal Audit Act (IA)(implementation laws)
 - Act on Execution of the State Budget of the Republic of Croatia for the year 2003 (Official Gazette No. 154/02), ([See Annex 3](#))
 - Regulation on the Main Treasury Book System and Methods of managing the Single Treasury Account (Official Gazette No. 97/95), ([See Annex 9](#))

- Ordinance on Budget Supervision and Internal Supervision (Official Gazette No. 92/96) ([See Annex 10](#)).
- c) Tertiary regulations, such as FMC and IA manuals, IA Charter, Codes of Ethics for FMC and IA, audit trails
- Instructions on Implementation of the State Budget from the Single Account of the Treasury (Official Gazette No. 4/01) ([See Annex 11](#)).

Financial management and control (FMC) systems

8. Will a central Treasury system be developed? To what extent will the control functions of the Treasury have an impact on certain tasks of the traditional checks during ex ante control or make them redundant? How will the Treasury control functions be integrated into the ex ante control activities of the Ministry of Finance and in line ministries?

The State Treasury system has been designed as a form of centralised public expenditure management. It is based on the principle of a single account for conducting all financial transactions of the state budget, with all budgetary units linked into a single financial information system that allows budgetary units to conduct transactions exclusively through the system. Such structure provides users of the system with necessary data for everyday budget execution, as well as with a broad spectrum of information for making long-term decisions, control and reporting on results and efficiency of the public sector.

The Central State Treasury Project went live on 1 January 2001. Upgrading of its functionality and incorporation of new business processes have marked the entire period since that date.

The scope of the Central State Treasury (herein: CST) includes the budget preparation, budget execution, liquidity monitoring, public debt management and budgetary accounting.

SAP system provides IT support for all five functions and enables transparency and efficiency while observing the communication standard. Benefits of such approach include better financial management, more rapid and efficient processes, prompt reporting, all for the purpose of reaching faster and better business decisions.

The CST defines cash allotments to regional treasuries. These allotments should be checkpoints of the budget execution process. Execution of the state budget is an integral part of the CST that generates all reports and registers all business events in the general ledger of the state budget, as a basis for establishing discrepancies between budgeted and actual results and the starting point for defining corrective measures.

Since the CST has been designed to enable direct payment to suppliers against issued invoices, the information system of the State Treasury and financial information systems of regional treasuries need to be linked in order to avoid double data entry (into their own systems and into CST system). This is of particular importance for those ministries that receive more than 15.000 invoices per month. For the purpose, two pilot projects have been launched, one for the Ministry of the Interior and the other for the Ministry of Defence. Ministries operating on several levels find collecting data from their budgetary users a problem, which the Internet Treasury Project should solve.

Our next objective is introduction of the electronic signature, which would considerably accelerate the payment process by putting an end to the circulation of hard copies.

Also, implementation of the project of a single reporting and analytical public finance system in the Republic of Croatia is underway, based on data warehousing technologies. Its primary objective is to centralise the data collected from various systems (data on state budget execution from SAP system's Central State Treasury, on tax and customs revenues, data from local government and from non-budgetary funds), relevant for drafting a variety of reports as elements for making quality business decisions.

Still ahead is the project of developing a business process simulation system for achievement of set goals (data intelligence).

The establishment of the centralised payment institution has improved conducting of financial transactions as the means of achieving the CST's primary goal, i.e. management of the state revenues/receipts and control of costs/expenses.

When planned revenues/receipts are compared with the planned costs/expenses it is possible to forecast the CST account inflows and outflows as well as borrowing. It is also possible to control each transaction entered into the system, together with its characteristics (activity, programme, account, maturity, supplier) by selecting the level of CST defined details. Ex ante control that is conducted when defining levels through approved monthly allotments determining the extent, dynamics and purpose of spending, seems to be expendable.

9. Provide a description of the general set-up, roles and responsibilities of financial services in line ministries and/or budgetary chapters (you should cover the functions of the authorising officer, the accountant, double signature systems for commitments and disbursements, the ex ante financial controller, the inspection and the ex post financial controller). Has the concepts of audit trails been introduced?

From IT and organisational aspects, the Central Treasury is a unit that approves funds (through financial plans and allotments) settles payment claims and controls spending.

A regional treasury (user) is organised as a functional and logical entity inside the competent line ministry or chapter (agency), which enters financial plans and submits payment claims to the Central Treasury. Payment claims can be submitted only after the Central Treasury approves the funds.

Based on budgeted funds, users have to draw up annual financial plans broken down by months.

The State Treasury's Sector for Preparing the Budget considers and approves financial plans, checking their compliance with the budget and the law.

After approval, financial plans are submitted to the State Treasury's Sector for Budget Execution. The Sector defines monthly allotments according to the budget liquidity and commitments of the budget users, up to the amount set out in the users' annual financial plans. The budget users then adjust their monthly financial plans to the defined monthly allotments and the Sector for Budget Execution accepts the plan.

Budget users are entitled to conclude contracts on procurement of goods, services and works within the

limits of allotted funds and in line with the annual procurement plan, relevant law and instructions given by the Minister of Finance. Budget users are allowed to take commitments that do not exceed the funds provided in the special part of the Budget when their execution complies with monthly allotments.

The State Budget Act (Articles 39, 40, 41, 42 and 43) and annual Act on the Execution of the State Budget of the Republic of Croatia (Articles 3, 4 and 5) regulate these issues.

Each cost and expenditure covered from the budget has to be corroborated by an authentic accounting document evidencing the payment commitment.

A controller and an authorisation officer sign payment claims.

The controller of a budget user has to make sure that orders issued by the budget user's managers are legally executed in accordance with financial and accounting regulations. The controller checks whether commitments are valid, whether an authorised person has confirmed in writing that a service was rendered or goods delivered according to order and as expected, whether the invoice is valid, and whether the creditor is correctly identified.

The authorising officer signs payment claims, having checked the validity of commitments.

The State Treasury (the responsible person in the Budget Execution Sector) approves payment claims on the grounds of budgeted inflows and payment maturities.

Audit takes place after disbursements, in a manner and according to the procedures provided by the State Audit Act.

Budgetary control and internal control can be executed before a transaction is approved or a business event recorded. The budgetary and internal control of operations is a continuous effort exercised throughout a fiscal year, and if necessary for the previous period.

It is worth mentioning that the SAP system itself has inbuilt blockings that keep users' financial plans within the limits of their budgets and payment claims within allotments, while disbursements prior to maturity are not allowed.

10. Planning and nature of ex ante control (scope and contents, 100% checks or sampling based on risk assessment, etc.). Are scientific methods used in such sampling, like the Monetary Unit Sampling technique? Are risk assessment and risk management techniques being developed?

Budget users may take commitments up to the amount provided for in a special part of the budget if their execution complies with monthly allotments. Allotments represent resources available for taking commitments itemised by type of expenditure in the users' financial plans (contracting of and paying for goods and services).

This approach to the budget execution leaves no space for any surprises, regarding either dynamics or volume of public funds spending, and provides a stable framework for rendering decisions on cash flow management.

Since Cash Management model as the business management process failed to reach its full functionality in the SAP system, we cannot speak about use of any scientific methods; however, great efforts are devoted to their implementation. Efficient management of public funds recognises the risk category that is

built in the model as an indispensable prerequisite (a *condicio sine qua non*) for rendering business decisions.

Internal Audit (IA) systems

11. Has the function of internal audit been introduced in the Croatian public sector (pls. refer to the glossary for the exact meaning of the internal audit concept.) Describe the functional independence of the internal audit in the following terms: status inside the auditee, nomination, transfer and demotion, freedom to set annual audit plans and ad hoc planning, freedom to report to the highest level of hierarchy and in case of conflict to other relevant organisations. Are internal audit units established in line ministries? Do they share tasks with the inspectors or is a strict separation foreseen between the two functions?

Article 137 and Article 138 of the Budget Act (Official Gazette No. 96/2003 of 10 June 2003) stipulate the obligation of all budget users to set up internal audits, as well as the competence of the internal audit ([See Annex 2](#))

Definition of concepts, principles, scope and responsibility of the internal audit, its organisational structure, tasks and staff are set out in the document: Policy and Vision of the Internal Audit, passed by the Minister of Finance in July 2003.

The document was delivered to all ministries, the Government of the Republic of Croatia, the State Audit Office and the Internal Control Office of the Croatian Government ([See Annex 12](#)).

Pursuant to Article 148 of the State Budget Act, budget users and budgets of the local and regional self-government units have to set up internal audit functions provided for in Article 137 of the Act, within deadlines from Article 147. The Minister of Finance has to pass secondary legislation (Ordinance on Internal Audit Operations) within the same deadlines.

Ordinance on Internal Audit Operations (currently in the drafting stage) will precisely regulate lower level entities and their relationships, in line with Article 148 of the Budget Act.

The Budget Act, Article 138, paragraphs 4, 5 and 6, defines the internal auditor's reporting competence.

The process of reorganising the ministries' current internal control functions into internal audit organisational units has started with coming into effect of the Budget Act and will be completed within deadlines provided by Article 148 of the Act.

By the Regulation amending the Regulation on the Internal Organisation of the Ministry of Finance (Official Gazette No. 71/2003), Article 17, the following units have been set up in the Directorate for Internal Audit and Control:

- Internal Audit Department
- Internal Control Department

The Departments have separate competencies.

The Internal Audit Department develops standards and methodology of the internal audit, co-ordinates operations of internal audits of other ministries and state administration bodies and conducts the internal audit according to the annual operational schedule.

The Internal Control Department supervises and harmonises the activities of other specialised inspections managed by other organisational units of the Ministry.

The Ordinance on Budgetary Control and Internal Control (Official Gazette No. 92/96), which stipulates internal control objectives, scope, content as well as modes and conditions of control, shall remain in force until the adoption of the Ordinance provided by Article 137 of the State Budget Act. According to the current Ordinance, many features of the internal control are similar to the internal audit. In fact, the Ordinance has laid foundations for introduction of the internal audit function, legality audit, performance audit, and feedback on audit findings.

12. What kind of audits is performed by the Ministry of Finance and by Internal Audit Units, if established, in line ministries and other spending centres (regularity and legality audits, systems audits, performance and IT audits)?

Pursuant to Article 137 paragraph 4 of the State Budget Act, the Minister of Finance shall pass regulations on common criteria for setting up internal audits of budget users, in compliance with international internal audit standards.

Ordinance on Internal Audit Operations will stipulate the standards and methodology of the internal audit work in ministries and other state administration bodies.

According to the item VII of the Policy and Vision of the internal Audit, the Ministry of Finance shall be the central co-ordinating body. ([See Annex 12](#))

The above-mentioned acts and regulations will ensure systematic work of internal audits by specified kind.

13. What procedures have been introduced to ensure adequate audit reporting (contradictory procedures with auditees) and for the adequate follow-up of audit findings? Who ensures the feed back of audit findings into the FMC-systems?

Policy and Vision of Internal Audit is the document that regulates reporting, and the Ordinance on Internal Audit Operations, scheduled for adoption before 1 October 2003, will specify terms and manner of reporting.

Pursuant to the State Budget Act, Article 138, paragraphs 4, 5 and 6, Audit' Reports are submitted to the minister or manager of a state administration body, who take necessary measures in accordance with audit findings.

Central harmonisation for FMC and IA

14. Could a description be given of the tasks that the Ministry of Finance has in relation to providing central guidance on methodology to all ex ante control and internal audit activities in all line ministries and government spending centres? How does the Ministry ensure that these guidelines are adhered to? Are there compliance and substantive tests performed for this purpose?

Ex ante control is conducted through the implementing regulations related to the State Treasury system (Regulation on the Main Treasury Book System and Methods of managing the Single Treasury Account) ([See Annex 9](#)).

Ex ante control over financial management will be defined in the strategic PIFC document, the drafting of which is in progress.

According to the State Budget Act, Article 137, paragraph 3 and 4, the Minister of Finance shall pass ordinances stipulating conditions that must be fulfilled by internal auditors, work methodology rooted in principles and standards of the internal audit profession and internal auditors' professional code of ethics, as well as common criteria regulating internal audit functions of budget users, all in accordance with international internal auditing standards.

The Directorate for Internal Audit and Control of the Ministry of Finance will co-ordinate the work of internal audits of other ministries and state administration bodies.

Pursuant to the Act on Execution of the State Budget of the Republic of Croatia for the year 2003, Chapter XI, Article 48, the budgetary and internal controls are responsible for the control and supervision of budgetary resources ([See Annex 3](#))

15. What actions are undertaken to train controllers and auditors? Who is responsible? Is there a Public Finance School for these functions? Are there contacts with the SAI, the IIA chapter for Croatia and with academic authorities? Is there training for certified public internal auditors? Is staff being trained to become training specialists?

Within the frame of the CARDS 2002 project, training of the first internal auditors group from the Ministry of Finance has been scheduled. The training will be extended to internal auditors of other ministries and state administration bodies in co-operation with the Croatian Association of Internal Auditors.

The Ministry of Finance is responsible for internal auditors' training and education and will establish criteria for the purpose.

A specialised school for controllers and internal auditors does not exist as yet. However, compulsory subjects of Audit and Internal Audit are included in the undergraduate curriculum of Zagreb Faculty of Economics, which means that the graduates of this Faculty have mastered the essentials of audit.

Currently, ministries and other state administration bodies practice the internal audit and control of specific parts of their operations and of their legality, but not entirely as provided by the international standards of internal audit.

There are close contacts with the State Audit Office and with the Internal Auditors Section of the Croatian Association of Accountants and Finance Professionals.

All internal auditors, whether auditing the public sector or not, are trained within the frame of the Programme for Chartered Internal Auditors, drawn up and carried out by the Croatian Association of Accountants– the Internal Auditors Section. There is a special module for certification of internal auditors in the public sector, for budgetary and non-for-profit organisations. The training programme is carried out by a professional association in co-operation with academia and not by the Ministry of Finance, but it has all the references for training of chartered internal auditors in the public sector.

16. Have rules been established to ensure a minimum of knowledge and experience before staff can become financial controllers and internal auditors (examination board or otherwise?)

The Internal Auditors Section of the Croatian Association of Accountants shall test knowledge and experience of candidates for chartered internal auditors according to the Ordinance on Certification Programme and Exam.

The Ministry of Finance shall define the training programme and tests for internal auditors in the public sector. Through the realisation of the CARDS programme titled “Internal Audit” a training system of internal auditors will be established, along with the minimum knowledge criteria, and internal audit regulations.

17. What expertise is presently transferred to the government in this field under what programmes (Consultants, Sigma, others?)

There is a project within the CARDS 2002 programme that inter alia includes the internal audit of budget users.

Within the CARDS and in co-operation with the delegation of European Commission, SIGMA consultants are training the available internal audit staff on a continuous basis.

In October 2003, the European Commission will select consultants for the training of the first group of internal auditors, with tests and certificates included.

18. Could a description be given of the available staff capacity in the organisation dealing with the development of FMC and IA harmonisation?

The Ministry of Finance is preparing documents for establishing the internal audit function in ministries and other state administration bodies.

Pursuant to the current legislation, the Ministry of Finance, other ministries and state administration bodies have established organisational units or independent posts in charge of continuous control and supervision of operations. (E.g. Department for Internal Supervision and Control within the Tax Administration, Department for Review and Subsequent Control in each customs office of the Customs Administration. In ministries, internal supervision and control are differently positioned)

C. Management and Control of EU funds

1. Is there a paying agency in charge of the management of the agricultural policy in Croatia? If yes, please submit information on the way it operates. If no, please provide information on the institution in charge of the management of the agricultural policy in Croatia (Ministry of Agriculture, regional offices, marketing boards, Ministry of Commerce, etc.)? In both cases, information on the structures of the organisation(s) involved should also be provided.

The Directorate for Market and Structural Support to Agriculture, an organisational unit of the Ministry of Agriculture and Forestry, prepares and disburses state aid in line with the Act on State Aid in Agriculture, Fisheries and Forestry (Official Gazette No. 87/02) and with the Ordinance on Manner and Conditions for Implementing the Production Promotion Model, Income Aid Model and Croatian Original and Protected Breeds Preservation Programme (Official Gazette No. 11/03).

The Directorate for Market and Structural Support monitors and implements the market price and structural policy measures in agriculture, establishes and implements the administrative and control system of the Farm Register, disburses state aid and is in charge of market interventions.

The Directorate is organised into three Departments:

- a) Financial Affairs and Internal Audit Department;
- b) Market Support and Farm Register Maintenance Department; and
- c) Structural Aid Department.

a) Financial Affairs and Internal Audit Department carries out financial operations provided by the State Budget Execution Act; effects payments; checks the accuracy, completeness and timeliness of the Directorate's financial flows calculation; prepares periodic analyses; co-ordinates and confirms validity of applications approved by structural and market support departments; maintains accounting documents; co-operates with the State Audit Office.

The Department has so far filled only three out of eleven positions defined by the job classification.

b) Market Support and Farm Register Maintenance Department, implements market price policy measures in agriculture, fisheries and forestry in line with regulations in force; carries out measures for levelling out

of supply; allocates import quotas based on trade contracts concluded between two or more parties; applies market intervention measures; carries out the sale and consumption promotion measures; manages the central system of the Register (ensures correct IT equipment functioning); manages the application program (ensures unobstructed use of the application); provides assistance («help desk») for use of the Register application program and system functioning; develops and maintains networks of the Register application programme users in the Directorate; monitors functioning, supports maintaining and upgrading of the external network of program users (state administration offices);

The Department will operate through the following subsections:

- Market Support Subsection
- Register Maintenance Subsection.

The Market Support Subsection has so far filled up four out of its five jobs provided for by the job classification, while the Register Maintenance Subsection is currently filling up its five vacancies.

c) Structural Aid Department carries out measures of structural aid policy for less favoured areas (mountain and hill farming, islands and the Pelješac Peninsula, areas with unfavourable hydrological and pedological characteristics, special state care areas); provides aid to development of agriculture compatible with environmental protection requirements and preservation of biological diversity; supports investments in farms; supports vocational training of agricultural workers; supports start-up of young farmers as well as early retirement of farmers; supports supplementary activities on farms.

The Department has already filled up six out of its ten jobs under the job classification.

Participants in the procedure of submission, processing and delivery of the state aid applications include state administration's county offices and their branch offices, and the following institutions established by the Ministry of Agriculture and Forestry: the Croatian Institute for Agriculture and Advisory Service, the Croatian Selection Centre, the Institute for Seed Production and Planting.

2. When receiving application for aids, how are they processed, authorised and paid?

Acts and regulations have stipulated the state aid models, programmes within individual models, production-specific aid, eligibility conditions and users of the state aid, procedure for submission of model-specific applications, approvals, method and dynamics of payments to end users (farms and other legal and natural persons), as well as the model-specific methods and extent of the administrative control and inspection supervision.

State aid applications within production promotion model, the income support model and the programme of preservation of indigenous protected breeds from the scope of the rural development model, are submitted to the Ministry of Agriculture and Forestry.

Applications for aid by production area and agricultural seeds of the second category, seed material and

first category agricultural seeds for ecological production are submitted to the counties' state administration offices or to the City of Zagreb's administrative body keeping the Farm Register entry of the farm in question.

Applications relating to the first category agricultural seeds, tobacco and seed material by production unit, as well as planting of perennial crops are submitted to the Ministry of Agriculture and Forestry.

Aid applications related to milk production, cattle fattening and breeding stock are submitted to the Croatian Selection Centre.

Fisheries-related aid applications are submitted to the Ministry of Agriculture and Forestry.

Income aid applications are submitted to state administration offices keeping the Farm Register entry of the farm in question.

Applications for all other aid models are filed with the Ministry.

Each application is registered where submitted and then forwarded to the Ministry for processing, control and disbursement.

3. Is there any separation of functions?

Aid applications by production area and agricultural seeds of the second category, tobacco and seed material in ecological production are processed by the Ministry's Market Support and Farm Register Maintenance Department and then forwarded to the Financial Affairs and Internal Audit Department, which prepares and disburses aid to the users.

Aid applications relating to the first category agricultural seeds, seed material and perennial crops are submitted to the Market Support and Farm Register Maintenance Department.

Aid applications for promotion of milk production, cattle fattening and breeding stock are submitted to the Croatian Selection Centre, which processes and forwards data to the Financial Affairs and Internal Audit Department for the purpose of preparing and disbursing the aid.

The Fisheries Administration registers and processes the fisheries-related aid applications and forwards them to be disbursed by the Financial Affairs and Internal Audit Department.

The Structural Aid Department processes the income aid applications and then forwards the data to the Financial Affairs and Internal Audit Department, which prepares and disburses the aid.

Prior to aid disbursement, departments of the Directorate re-confirm the approved aid amounts with counties' agricultural inspections and the Ministry.

4. What are the procedures as far as accounts are concerned?

The Financial Affairs and Internal Audit Department operates the entire accounting system of monitoring financial aid in line with provisions of the Regulation on Budgetary Accounting and the Ordinance on Accounting and Budget Calculation Plan. They also draw up quarterly financial statements and annual accounts as required by the law.

Based on the budget user's methodology, all changes in financial flow are recorded, i.e. payments into and disbursements from the Ministry's special account (Financial incentives and compensations, Acc.No. 2390001-1300002393).

A system of registration of legal and natural persons who are aid users will be developed in the course of 2003. The system will enable maintenance of data on provided aid by user, as well as aid disbursement directly to users' bank accounts.

5. Is there any internal service in charge of performing a control of the institution?

Pursuant to the State Budget Act, the internal audit is a function within the budget user's organisation. In line with the Regulation on the Internal Organisation of the Ministry of Agriculture and Forestry (Official Gazette No. 112/03), adopted in July 2003, an independent internal audit department was established in the Ministry. The department has six vacancies that will be filled up before the end of the year.

One of the department's tasks is to check regularity and timeliness of state aid disbursements.

6. Is there any external service in charge of performing a control of the institution?

The State Audit Office and the Budgetary Control Department of the State Treasury are responsible for control of the Ministry's annual financial operations.

7. Is there any internal audit unit?

Yes, an independent internal audit department was established within the Office of the Minister, in line with the Regulation on the Internal Organisation of the Ministry of Agriculture and Forestry (Official Gazette No. 112/03).

8. Is there a system to deal with securities, debts and recoveries?

There is no such system within the Ministry.

9. Is there any delegation to other(s) institution(s) regarding payments and controls. If yes, on which basis?

All state aid payments are effected directly from the Ministry of Agriculture and Forestry.

10. How is the IT system protected?

Protection of the Farm Register from unauthorised access is regulated by the contract between the Ministry of Agriculture and Forestry and the Croatian Telecommunications (HT – Hrvatske telekomunikacije d.d.) – the provider of the on-line service. The service includes the Service Level management that defines and co-ordinates the Ministry's requirements for security and metric of all other operating processes of such production database.

The protection is based on HThinet VPN-DI data transfer security services, by IPsec system cryptography and (VPN I) and L2TP (VPN DI) tunnels.

Backup and Restore Strategy is based on BrightStar ARCserve Backup. The analysis of monitoring and control within the system is carried out according to the defined Service Monitoring and Control criteria of the authorised management team.

Protection of the IT system «Aid Programme and Aid Disbursement Registration in Agriculture» is based on the use of Cisco System network equipment (Cisco system PIX Firewall 4.4 protection elements) for data storage and integrity in the central storage of the system. Also, the Sophos antivirus software with Enterprise management has been installed. Backup and Restore Strategy is supported by the Windows 2000 backup system. Service Monitoring and Control have been defined according to the criteria of the program's management team.

11. What kind of training are given to the staff?

Setting up of the Farm Register and implementation of the Act on State Aid in Agriculture, Fisheries, and Forestry, required through preparation of all participants including training of the staff from the Ministry, the Croatian Selection Centre, the Croatian Institute of Agriculture with Advisory Service, as well as from all state administration offices of counties and from the City of Zagreb.

Training courses on the Farm Register Programme and on payment entries into the database as well as on payment itself were conducted.

Through invitation to tender, an IT company was selected for training employees engaged on development of the Register database.

12. Which institution is responsible for public intervention for agricultural products?

Interventions on the market of agricultural products are the responsibility of the Ministry's Directorate for Market and Structural Support.

13. Is there a service in charge of dealing with frauds in the agricultural sector?

The Inspection Department of the Ministry of Agriculture and Forestry, in co-operation with county inspections, checks the entitlement to and amount of approved and disbursed state aid.

Prior to approval, all applications are checked by the competent departments of the Ministry's Directorate, checked for the regularity and then approved for disbursement.

14. Are the accounts of the institution(s) certified by an external audit company?

External audit companies have not been engaged. Annual accounts are submitted to the Ministry of Finance and to the Financial Agency. The State Audit Office is responsible for control of the entire financial operations of the Ministry.

15. What are the legal procedures for call for tenders (eligibility criteria, selection, contracts, ex-ante and ex-post controls)?

In all market intervention cases the Ministry calls for tenders. All obligations of the best bidder are stipulated in a contract.

Treatment and follow-up of cases of suspected fraud and other irregularities, protection of EU financial interests ("first pillar" aspects) ⁴

16. Does national law provide for specific obligations and procedures with regard to the treatment of cases of suspected fraud and other irregularities affecting national or international funds?

In case of suspected fraud, police and other public control bodies (Tax Administration, Customs Administration etc.) are obliged to take measures provided by the law. Pursuant to Article 177 of the Criminal Procedure Act (PPA/97, 186. PPA, final draft), in case of a suspected criminal act, police authorities take necessary measures to find the perpetrator, to discover and preserve leads and objects that might be of help in establishing facts and to collect all information that might contribute to successful

⁴ "Third pillar" issues related to the protection of the Communities' financial interests are dealt with under Chapter 24.

criminal proceedings. Police authorities must inform the State Attorney about these measures within 24 hours. If criminal investigation proves that a criminal act was committed, it is the duty of police authorities to submit criminal charges to the State Attorney's Office.

Pursuant to Article 171 of the Criminal Procedure Act, all public authority bodies and all legal persons have the obligation to report ex officio prosecutable criminal acts, whether discovered by themselves or reported to them. Substantiated criminal charges are brought to the State Attorney's Office, while public authorities have to do their best to preserve leads and other evidence.

The State Attorney's Office as well has the duty to investigate or require police investigation if it learns or suspects that a criminal act or a fraud may have been committed.

The above legal provisions clearly show that all state administration bodies have specific obligation to file criminal charges, give evidence and preserve all leads in case of suspected criminal act subject to ex officio prosecution as well as in case of any suspected fraud. The State Attorney's Office and police authorities are also obliged to carry out investigations and collect all data necessary for instituting the criminal proceedings.

Pursuant to Article 300 paragraph 2 of the Criminal Code, a fine or imprisonment of up to three years is indicated for responsible persons failing to report a serious crime that is not subject to civil action and which they became aware of while carrying out their official duties. Consequently, failure of a responsible state administration official to file criminal charges against suspected fraud that exceeds HRK 30,000.00 would be deemed a criminal offence.

In case of other irregularities, the State Audit Office, inspections and other public control bodies follow the legal procedure (file reports, institute misdemeanour proceedings, etc.).

17. How are cases of suspected fraud and other irregularities dealt with in practice? Are any statistics kept on detected cases of suspected fraud and other irregularities?

The State Attorney's Office keeps statistics on all criminal acts prosecuted ex officio or on proposal. The statistics comprises data on the number of criminal acts, actions taken, court decisions etc. Besides, all suspected fraud cases are entered into separate registers and checked to determine whether criminal acts were committed or not, so that either proceedings can be instituted or the case can be closed with the note that the suspicion was not confirmed. (Inspections and other supervisory services keep their own registers on conducted controls, filed reports and applications for starting misdemeanour proceedings).

As mentioned in the answer to the question 16, in case of suspected criminal act the report is submitted to the competent State Attorney's Office.

After criminal charges have been filed and all evidence and data collected, the State Attorney's Office immediately renders a decision. In all other cases, the Office itself conducts investigation or requires the

police investigation. During the investigation, the State Attorney's Office has the authority to require the necessary data from anybody. On request of the Office, all other government bodies including bodies in charge of control (inspections, customs administration, foreign exchange inspectorate, etc.) have to submit data to the Office, with the exclusion of secrets protected by the law.

If a criminal act is indicated, the State Attorney is obliged to institute criminal proceedings. However, if there is no reasonable doubt that a criminal act was committed, the State Attorney's Office in line with provisions of the Criminal Procedure Act rejects the charges. (If the perpetrator's identity is unknown, the State Attorney's Office shall ask the police to reveal it)

18. Is Croatia considering setting up specific institution or body for the investigation and/or treatment of cases of suspected fraud and other irregularities affecting national and/or international funds (separate from the PIFC-systems), or are such institutions or bodies already in place? If so, what is the scope of their competencies? Is their administrative capacity and their operational independence ensured? Have any procedures been defined for the communication, by other national authorities, of cases of suspected fraud and other irregularities to these institutions or bodies? Have any mechanisms been defined for co-operation between these different authorities?

Croatia is currently not considering setting up a specific institution or body for the investigation and/or treatment of cases of suspected fraud and other irregularities affecting national and/or international funds, because there are bodies that deal with these issues, i.e.:

The State Inspectorate

- Within the Ministry of the Interior:
 - Business Fraud and Corruption Department
- Within the Ministry of Finance:
 - Foreign Exchange Inspectorate
 - Office for Prevention of Money Laundering
- Within the Head Office of the Tax Administration:
 - Supervision Service
 - Independent Department for Prosecutable Tax Misdemeanour Detection
- Within the Customs Administration Headquarters:
 - Service for Review, Subsequent Control, Customs Tariff, Value, Laboratory and Excise Duties Collection
 - Anti-Smuggling and Analysis Service

Scope of their competencies is regulated by the following acts:

The State Inspectorate Act («Official Gazette No. 76/99) regulates the competence of the State Inspectorate

Ministry of the Interior:

Criminal Police Administration – Business Fraud and Corruption Department, competence is regulated by the Police Act (Official Gazette No.129/00); the Criminal Code (Official Gazette No. 110/97; 27/98; 129/00; 51/01; 50/00) and the Criminal Procedure Act (Official Gazette No. 110/97; 27/98; 58/99; 112/99; 58/02; 143/02; 62/03)

Ministry of Finance:

Competence of the Foreign Exchange Inspectorate is regulated by the Foreign Exchange Inspectorate Act (Official Gazette No. 33/92) and the Foreign Exchange Operations Act (Official Gazette No. 96/03)

Competence of the Office for Prevention of Money Laundering - by the Act on the Prevention of Money Laundering (Official Gazette No. 69/97; 106/97; 67/01; 114/01; 117/03)

Competence of the Supervisory Service and the Department for Prosecutable Tax Misdemeanour Detection is regulated by the Tax Administration Act (Official Gazette No. 67/01; 70a/01; 94/01)

The Customs Service Act (Official Gazette No. 67/01) regulates competence of the Sector for Review, Subsequent Control, Customs Tariff, Value, Laboratory and Excise Duties Collection and of the Anti-Smuggling and Analysis Service.

The Act on the State Administration System provides for the administrative capacity and independence of operations as well as co-operation of the above services. (Official Gazette No. 75/93; 92/96; 48/99; 15/00; 127/00; 59/01)

19. Financial and judicial follow-up: Have any procedures been defined for the communication of cases of suspected fraud to the prosecution authorities? Have any procedures been defined for the recovery of uncollected resources and unduly spent funds in the case of suspected fraud or other irregularities?

The State Budget Act provides for penal provisions referring to the following persons: legal persons, authorised persons of the budget, budgetary and non-budgetary users, who will be charged for misdemeanour if the said entities have not used the budgetary funds in lawful, purposeful and timely manner. The State Budget Act, Article 56, regulates the reimbursement of the funds to the budget if the illegal and/or unjustified out-of-budget payment have been detected.

Answer to this question was given under the answer to the question 16. But let us repeat that all public authority bodies and all legal persons must report criminal acts that come to their knowledge directly to the State Attorney's Office or to police authorities. Pursuant to Article 300, paragraph 2 of the Criminal Code, failure of responsible persons to report serious criminal offences and frauds that come to their knowledge while performing official duties is treated as punishable criminal offence subject to fine or up to three years

of imprisonment.

Financial gains from criminal offences must be appropriated. Article 82 of the Criminal Code stipulates that financial gains from a criminal offence can never be retained and if sentenced the court must seize the perpetrator's illegal gains. Articles 464 to 471 of PPA/97 (Criminal Procedure Act), (Articles 483 to 490 of PPA - final draft) contain provisions on appropriation of financial gains acquired by criminal offence. Article 136 of PPA/97, 142 of PPA (final draft) stipulates that in line with seizure provisions the investigating judge may during criminal procedure impose temporary measures to ensure property right claims ensuing from committed criminal offences.

Illegal financial gains are also appropriated in the offence procedure. On the other hand, other person's funds spent contrary to an agreement or regulation must be returned in line with provisions of the civil law.