

# MINISTRY OF FINANCE

Pursuant to Article 137, paragraphs 3 and 4 of the Budget Law (*Narodne novine* 96/03), the Minister of Finance shall pass the

## BUDGET USERS' INTERNAL AUDIT RULEBOOK

### I. GENERAL PROVISIONS

#### Article 1

This Rulebook shall prescribe the conditions to be met by internal auditors, standards and methodology of internal audit work, common criteria on the basis of which budget users shall provide for internal audit and the manner of coordinating the work of budget users' internal audit.

Budget users shall be state bodies and local and regional self-government bodies, institutions, minorities councils, budget funds and community self-government whose expenses for employees and/or material expense shall be provided for from the budget.

### II. CONDITIONS TO BE MET BY INTERNAL AUDITORS

#### Article 2

For the performance of internal audit work, a person must meet certain requirements as follows:

- university degree,
- requirements prescribed for the admission to civil service;
- Minister of Finance's public sector certification for the performance of internal audit work, which shall be acquired as per the programme and procedure passed by the Minister of Finance.

Internal auditors shall report directly to the Budget User Head and shall solely perform internal audit work.

Internal audits shall be performed by certified internal auditors or an audit team headed by a team leader, which shall be designated by the Internal Audit Unit head.

In his/her work, an internal auditor may be assisted by a person appointed for the performance of internal audit work.

### III. STANDARDS AND METHODOLOGY OF INTERNAL AUDIT WORK

#### 1. INTERNAL AUDIT STANDARDS

#### Article 3

Internal audit shall be performed in compliance with:

- internationally recognised internal auditing standards,
- laws, other regulations and guidelines providing for internal audit in the Republic of Croatia;
- Development Strategy of Public Internal Financial Control (PIFC) in the Republic of Croatia (hereinafter: PIFC) and
- best practices of the European Union member-states.

## Article 4

Internal Audit Manual shall prescribe the methodology for the performance of internal audit. The Department for Harmonisation of Internal Audit and Financial Control of the Ministry of Finance (hereinafter: the Central Harmonisation Unit) shall pass and update the Manual.

The Internal Auditors' Professional Code of Ethics shall be passed by the Minister of Finance, which shall prescribe principles and rules to be adhered to by internal auditors in their work.

The Charter shall define the rights and duties of internal auditors in relation to the audited unit and it shall be passed by the budget user's head on the basis of the template prepared by the Central Harmonisation Unit. Before its passage, the Charter shall have to be submitted to the Central Harmonisation Unit for obtaining consent.

Prior to the commencement of internal audit performance, internal auditors shall be obliged to provide the audited unit head with the Internal Auditors' Charter.

## 2. INTERNAL AUDIT WORK METHODOLOGY

### *2.1. Audit planning*

## Article 5

Each internal audit unit shall carry out audits in accordance with:

- strategic plan for a period of three years,
- annual plan and
- individual internal audit plan.

The independence of internal audit and optimal use of internal auditors shall result *inter alia* from high-quality determined audit plans.

Internal audit strategic plan shall be based on objective risk assessment and adapted each year.

Strategic plan shall be the basis for internal audit units' activities and it shall be used for defining the necessary number of internal auditors for the purpose of having internal audit performing its tasks fully and in an efficient manner.

Internal audit annual plan shall be produced on the basis of a calendar year and adopted on the basis of the strategic plan. It shall refer to all activities and tasks of internal audit which shall have to be carried out during the year. The plan shall have to take account of priorities in risk assessment, the number of internal auditors and the unexpected circumstances.

An individual audit plan shall plan the performance of each individual audit and define a number of days for the audit, the date for the production of report, the allocation of resources involved in the audit, purpose and scope of each individual audit.

Plan shall be approved by the head of the internal audit unit.

Internal audit strategic and annual plans shall be prepared by the internal audit unit head on the basis of objective risk assessment together with managers and employees of the budget user, in the last quarter of the year. These plans shall be approved by the budget user's head upon the proposal of the head of internal audit unit at the latest by the end of the current year for the next year.

## *2.2. Internal audit performance*

### Article 6

Audit process of an individual audit shall include the following phases: planning of the audit assignment, ascertaining the system, evaluating the controls, testing the operation of the system of internal controls, evaluating audit findings, reporting and follow-up of recommendations.

In carrying out internal audits, internal auditors shall adhere to the said stages of an audit process, which is contained in the Internal Auditors' Manual.

Internal auditors may engage experts with specialised knowledge as assistance for the performance of internal audits in specific fields.

At request of an internal auditor, the audited unit shall be obliged to provide all necessary information, data and documentation for the purpose of carrying out internal audit.

## *2.3. Reporting*

### Article 7

Internal auditor shall produce a draft audit report and with the consent of internal audit unit head shall submit it to the head of the audited unit in order to inform such him/her of the internal audit findings and recommendations.

The head of the audited unit shall in writing respond to the draft audit report within a period indicated in draft audit report which may not be longer than 30 days following the date of draft report receipt. The response shall have to contain an action plan for the implementation of recommendations.

Following the agreement on the draft report, the final audit report shall be produced and issued, which shall mandatory contain an executive summary.

Failing to reach an agreement concerning some items contained in the draft audit report, such fact shall be indicated in the final audit report.

The final report shall be submitted to the budget user head and addressed to the head of the audited unit. It shall be signed by the audit team leader, whereas the cover letter with the report shall be signed by the internal audit unit head.

## *2.4. Follow-up of recommendations*

### Article 8

Internal audit shall make follow-up of recommendations from the audit report on the basis of the Action plan but shall not assume the responsibility for their implementation.

The internal audit shall provide the audited unit with advice in relation to the implementation of recommendations.

## **3. COOPERATION WITH OTHER BODIES**

### Article 9

The budget user's internal audit unit shall be obliged to cooperate with the Central Harmonisation Unit in order to receive all necessary guidelines, information and support.

It shall also be obliged to cooperate with the State Audit Office and provide it with all information concerning the content of the completed internal audits.

Cooperation with the State Audit Office may also pertain to the process of planning internal auditors and joint training of auditors.

#### IV. COMMON CRITERIA FOR THE PROVISION OF INTERNAL AUDIT

##### Article 10

Budget users shall establish an independent internal audit unit which shall report directly to budget user head.

The internal organisation and the number of certified internal auditors in the internal audit unit shall be determined by each budget user through its internal organisation enactments, depending on the overall needed number of employees, depending on the business processes through which they accomplish their objectives, as well as on the budget funds made available to them.

##### Article 11

Budget users shall not be obliged to establish an internal audit unit:

- if employing less than 100 staff in state bodies, i.e. 50 staff in local and regional self-government units or

- if having annual expenses and expenditure less than HRK 30,000,000.00.

For the budget users whose field of operation is deemed as risky and who shall be specific in the performance of their tasks, and who shall not be obliged to establish internal audit unit as per the criteria set forth in this Article, the Minister of Finance shall make a decision on the obligation of establishing an internal audit unit.

##### Article 12

Irrespective of the criteria set forth in Article 11 of this Rulebook, the bodies listed hereunder shall be obliged to establish internal audit unit:

- the City of Zagreb;
- big towns with population greater than 35,000;
- counties;
- county centres;
- local and regional self-government units, i.e. towns with transferred financing of the decentralised functions of elementary schooling in keeping with the Decree on the Manner of Calculating the Amount of Equalisation Grants for the Decentralised Local and Regional Self-Government Units' Functions for the subject matter year.

##### Article 13

The budget users which shall not have an obligation to establish own internal audit unit as per the criteria laid down in Article 11 of this Rulebook may provide for the performance of internal audit in one of the following manners:

1. agreement on the performance of internal audit work with the competent ministry/institution, local and regional self-government unit;
2. engaging a certified internal auditor on a contractual basis;
3. establishing an autonomous internal audit unit as per own estimate of justification thereof or appointment of own internal auditor.

Internal audit referred to in paragraph 1, items 1 to 3 may be performed exclusively by persons having Minister of Finance's certification in their possession.

## V. COORDINATING THE WORK OF BUDGET USERS' INTERNAL AUDIT

### Article 14

The Central Harmonisation Unit shall be in charge of the development and implementation of methodology and standards for systems of financial management and control and internal audit in the public sector.

In the internal audit field, the Central Harmonisation Unit shall be in charge of:

- publishing internal audit standards and methodology of work;
- coordinating the establishment of internal audit units with budget users;
- organising training and exam for acquiring internal auditors' certification;
- coordinating the work of internal audit units with budget users for the purpose of applying the passed standards, rules and regulations from the scope of internal audit;
- collecting, analysing and consolidating strategic and annual plans for internal audit unit and preparing the consolidated annual report on the activities of internal audit units which has to be submitted to the Government of the Republic of Croatia;
- monitoring quality of internal audit performance in internal audit units;
- establishing and maintaining the internal auditors' network, own Internet site and keeping permanent contacts with other organisations (public, private, national and international) dealing with internal financial control and internal audit;
- keeping registry of certified internal auditors.

### Article 15

The Central Harmonisation Unit shall not perform operational tasks of internal audit, but shall be entitled to participate in the performance of internal audit with budget users for the purpose of assessing the quality of the internal audits performance. This unit shall be independent in the sense of all management and audit responsibilities.

### Article 16

The Central Harmonisation Unit shall provide annual instructions in keeping with which all budget users' internal audit units shall submit their annual reports on internal audits carried out and the execution of strategic and annual plans.

The Central Harmonisation Unit shall submit the consolidated annual report on the activities of internal audit units to the Government of the Republic of Croatia by the end of March of the current year for the previous year.

### Article 17

Budget users' internal audit units shall be obliged to submit to the Central Harmonisation Unit:

- internal audit strategic plan (updated on an annual basis) by 15 January;
- annual internal audit plan by 15 January;

- annual internal audit report by end-January of the current year for the previous year.

The annual report of the internal audit units has to contain the number and types of the performed audits, executive summary for each individual audit, analysis of significant weaknesses and irregularities identified, recommendations and activities undertaken for implementation of the recommendations as well as the ratio between the audits planned and executed and other elements as prescribed in Central Harmonisation Unit's guidelines.

## VI. TRANSITIONAL AND FINAL PROVISIONS

### Article 18

A person distributed for the performance of internal auditor's work shall be obliged to acquire the certification for the performance of internal audit work within a one-year period.

Failing to acquire the certification within the specified term, an additional term of six months shall be approved for the acquisition of the certification.

Should a person fail to acquire the certification within the prescribed periods, such a person shall be distributed to other assignments compliant with his/her qualification and abilities.

### Article 19

All documents related to internal audit shall be published on the official website of the Ministry of Finance.

### Article 20

Persons involved in the internal auditors' training process shall carry out internal audits under the mentorship of certified internal auditors and with assistance of CARDS 2002 and CARDS 2004 projects which pertain to the development and improvement of the internal financial controls and internal audit system in the Republic of Croatia.

### Article 21

With the effective date of this Rulebook, the Budget Users' Internal Audit Rulebook (*Narodne novine* 111/04) shall become null and void.

### Article 22

This Rulebook shall enter into force on the eight day upon its publication in *Narodne novine*.

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Zagreb, 12 December 2005

**MINISTER OF FINANCE**

**Ivan Šuker**