

Pursuant to paragraphs 3 and 4 of Article 137 of the Budget Law (Official Gazette NN 96/03), the Minister of Finance shall pass

RULEBOOK ON BUDGET USERS' INTERNAL AUDIT

I. GENERAL PROVISIONS

Article 1

The Rulebook on Budget Users' Internal Audit (hereinafter: the Rulebook) shall prescribe the conditions which internal auditor should meet, standards and work methodology of internal audit, common criteria on the basis of which budget users provide for internal audit and the manner for synchronizing the work of budget users' internal audit.

The budget users shall be the state bodies and bodies of local and regional self-government units, institutions, minority councils, budget funds and community self-governments whose expenses for the employees and/or material expenses shall be provided in the budget.

Article 2

Internal audit shall be the budget user's body that shall independently and objectively determine the efficiency and the achievement of overall tasks and functions of the budget user's operations. It shall alert to the irregularities and disharmony with legal and other regulations which shall provide for the budget user's operations and shall propose the measures for removing the irregularities and for improving the budget user's operations.

Internal audit performance must be in compliance with the international internal audit standards and the standards applied in the EU member countries.

Internal audit shall be a part of public internal financial control (PIFC).

II. CONDITIONS THAT INTERNAL AUDITOR SHOULD MEET

Article 3

To perform internal audit, civil servant (internal auditor) must meet certain conditions which are the following:

- University degree qualification,
- Certification of the Minister of Finance, which shall verify the skills, suitable experience and professional ethics of internal auditors.

The Minister of Finance shall certify an internal auditor on the basis of the programme which shall be passed by the Central Harmonisation Unit.

In internal auditor shall report directly to the head of a budget user and shall exclusively perform internal audit affairs.

Internal audit shall be performed by certified internal auditors or audit teams with their team leaders, which shall be determined by the Head of internal audit unit head.

In its work, an internal auditor may be assisted by a person appointed for the performance of internal audit affairs.

III. INTERNAL AUDIT STANDARDS AND WORK METHODOLOGY

1. INTERNAL AUDIT STANDARDS

Article 4

Budget users' internal audit shall be performed in compliance with the international internal audit standards and EU member countries best practices. An Internal Audit Manual is provided by the Central Harmonisation Unit. As a methodological tool, the Rulebook assures a harmonised approach to the standards and best practices in all Internal Audit Units.

An Internal Auditors' Professional Code of Ethics will also be issued by the Central Harmonisation Unit and available on the official web-site of the Ministry of Finance (www.mfin.hr).

2. INTERNAL AUDIT WORK METHODOLOGY

2.1. Planning of Audit

Article 5

Each Internal Audit Unit shall perform audits according to:

- Strategic plan;
- Annual plan; and
- Internal audit work plan.

IA strategic plan shall be prepared for 3-year period. It shall be based on risk assessment and shall be updated every year.

IA annual plan shall be prepared and adopted on the basis of the strategic plan. The plan must take into account risk assessment priorities, number of internal auditors and unexpected circumstances.

The work plan shall define the objective and scope of each individual audit and shall be approved by the Internal Audit Head.

Strategic and annual internal audit plans shall be proposed by the Internal Audit Head and shall be approved by the Budget User's Head, until the end of the current year for the following year.

2.2. Performance of Internal Audit

Article 6

The audit process shall involve the determination and assessment of a system, testing of functioning of the system of internal controls and evaluation of internal audit findings.

The activities of determining and assessing the system shall be performed for the purpose of understanding the audited area.

Testing shall determine the functionality and adequacy of the system of internal controls.

The findings evaluation shall provide the information relevant for providing assurance on the system of internal controls and for making recommendations in the way of better efficiency and in full compliance with the legal framework.

On the request of internal auditors, the auditee shall be obliged to provide all necessary information and documentation for the purpose of performing an internal audit.

2.3. Reporting

Article 7

Internal audit shall prepare a draft audit report describing general weaknesses and making recommendations for the improvement of the system and of internal controls.

Auditors shall submit the draft audit report to manager of auditee for giving primary information on the content, crosschecking evidences and obtaining opinion on the feasibility of the proposed recommendations.

A cover letter signed by the audit team leader and attached with the draft report shall determine the deadline for the response by the auditee.

The final report shall be submitted to the Budget User's Head and addressed to auditee's management. Should the draft report contain any points of disagreement, these should be stated in the report.

Final report on an internal audit performed shall be signed by the audit team leader, while the cover letter accompanying the report shall be signed by the Internal Audit Unit Head.

2.4. Follow-up of Recommendations

Article 8

Internal audit shall follow the implementation of the recommendations set forth in the report, but shall not assume responsibility for their implementation in financial management and control systems.

Internal audit shall provide the auditee with the advice in connection to the recommendations implementation.

3. COOPERATION WITH OTHER BODIES

Article 9

A budget user's internal audit unit shall be obliged to collaborate with the Central Harmonisation Unit for obtaining all the necessary guidance, information and support.

The Internal Audit Unit Head and internal auditors should provide all information requested by the State Audit Office in relation to internal audits already performed.

IV. COMMON CRITERIA FOR INTERNAL AUDIT ARRANGEMENT

Article 10

Internal audit shall be a separate budget user's organisational unit whose status shall be defined by the Decree on Budget User's Internal Organisation.

Internal audit shall not belong to any other budget user's organisational unit and shall be responsible directly to the Budget User's Head.

Article 11

The size of internal audit unit shall be determined by the scope and the complexity of specific tasks which the law and other regulations shall attribute to the users and by the risk to which the budget user is exposed.

VI. COORDINATION OF BUDGET USERS' INTERNAL AUDIT WORK

Article 12

The Central Harmonisation Unit shall be in charge of:

- the preparation of training programme and certification of internal auditors;
- organisation and the delivery of the training programme, with the help of civil servants or external experts,
- the conception and harmonisation of internal audit work methodology;
- the harmonisation of internal auditors' work programmes;
- the coordination of public internal auditors work and establishment of relationships with other state and international institutions in internal auditing area;
- the production of a consolidated Annual report on the activities of all Internal Audit Units addressed to the Prime Minister of the Republic of Croatia, by 31 March of the current year for the previous year.

The Central Harmonisation Unit shall not carry out internal audits. This unit shall be independent from any management or audit responsibilities.

Article 13

The budget users' internal audit organisational units shall be obliged to submit to the Central Harmonisation Unit:

- the strategic internal audit plan (yearly updated) by 15 January;
- the annual internal audit plan by 15 January;
- annual report on the performed internal audits by the end of February.

The Central Harmonisation Unit shall give annual guidelines prescribing the content and the manner for the submission of the above documents.

VII. TRANSITIONAL AND FINAL PROVISIONS

Article 14

Until the change of the Decree on Internal Organisation of the Ministry of Finance, the affairs of the Central Harmonisation Unit shall be performed by the Internal Audit and Internal Control Department of the Ministry of Finance.

Article 15

Until internal auditors acquire conditions referred to in Article 3 of this Rulebook, internal audit shall be performed by the civil servants involved in the training programme under the leadership of experts of CARDS 2002 "Development of PIFC and Internal Audit".

The civil servants involved in the training process shall perform audits under the mentorship of certified internal auditors.

Article 16

This Rulebook shall be enacted on the eighth day following the announcement in the official gazette *Narodne novine*.

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MINISTER OF FINANCE

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