



**Republic of Croatia
Ministry of Finance**

SIGMA
Support for Improvement in Government and Management
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Regional Conference on Public Internal Financial Control for EU Candidates and Potential Candidates

Host: Ministry of Finance of the Republic of Croatia

Coordination and financial assistance: OECD/ SIGMA

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Hotel Regent Esplanade
Zagreb, Croatia**

Ladies and gentlemen,

I am both honoured and pleased to be able to open the Regional Conference on Public Internal Financial Control for EU Candidates and Potential Candidates.

I would like convey my gratitude to the representatives of SIGMA, the European Commission and the European Union Delegation in Zagreb, headed by Mr. Paul Vandoren, who upheld the initiative of the Ministry of Finance of the Republic of Croatia to hold such a conference and provide comprehensive financial and logistical support.

As hosts, we are exceptionally pleased to be able to welcome you here in Zagreb.

The initiative to hold this conference was impelled by several factors.

First, aware of the importance of internal financial control systems and their significance to overall public administration reform, especially in the field of public financial control, and the fact that development of these systems also requires complex efforts for their implementation in practice, we greatly appreciate the chance to be able to exchange experiences with other countries.

In July 2010, the Republic of Croatia provisionally closed Chapter 32 – Financial Control. This indicates that we have achieved the results expected of us, although we are also aware that we have completed only a single stage, and that great challenges and the true test of efficient functioning of the public internal financial control system await us once we join the European Union.

The experiences of new member states are therefore quite important to any country in the final phases of its negotiations for European Union membership. It is gratifying that the member states in the region accepted the invitation to attend this conference and that they are with us today to share their experiences.

By the same token, we wish to share with other countries the experience which Croatia has gained by developing its public internal financial control system, better known by its acronym PIFC. We hope that our experience will be particularly helpful to countries in the region, potential candidates, so that they can avoid certain difficulties and more easily implement PIFC.

The bilateral meetings we have held with countries in the region over the past year also pushed forward the initiative to hold this conference.

The importance of the standards, legislation and regulations which provide the framework for PIFC development is incontestable. However, successful implementation in practice is a demanding task, and we can assist each other greatly by exchanging the experiences that we have gained.

The development of a public internal financial control system in Croatia already commenced in 2004, when we achieved the status of candidate country.

At the very beginnings of this system's development, a rather demanding task was to convince the chief officials of local and regional governments that this a system that they need and from which they can benefit.

As a governmental minister who has been involved from the very start, I can say that the development of the public internal financial control system has always been a priority in public administration reform, which has achieved in much positive progress and the results we have today.

The necessary laws and subordinate legislation were enacted together with enabling regulations. Thus far, four national PIFC development strategies and the accompanying action plans have been adopted.

The Central Harmonization Unit has been established with the task of coordinating and aligning implementation of PIFC in the entire public sector.

Over these past five years, we have created a new professional field in the public sector: the internal audit. Today we have approximately 300 internal auditors and internal audit units organized in all ministries, counties and large cities.

Budget users have appointed individuals in charge of financial management and control.

We have improved the quality of public financial management. We have introduced strategic planning, we are developing risk management, written operating procedures are being compiled, and information and communication systems are being streamlined. The best example of the latter is the integration of the accounting systems of budget users and the State Treasury.

The Internal Financial Control Council has been established. Its members include ministers and the highest-ranking officials familiar with development of the PIFC system, who very actively discuss matters pertinent to PIFC development and, through the Croatian Government, prompt accelerated problem-solving for certain open issues.

Training for internal auditors and financial management and control officials is conducted regularly.

All of these achievements did not come overnight; they are in fact the result of the high-quality and dedicated work of our staffs, with the broad assistance of foreign experts engaged through projects financed by the European Union and representatives of SIGMA, the European Commission and the European Union Delegation in Zagreb.

At this point I would also like to stress the active support of the State Audit Office from the very commencement of work on the public internal financial control system, which enabled the more rapid implementation of this system among actual budget users. It is precisely the higher number of unqualified evaluations from the State Audit Office which indicates that progress has been made and that budgetary funds are being more efficiently spent.

Today, when all of the conditions for PIFC development have been created – we're going forward! We shall endeavour to integrate PIFC entirely into public administrative processes.

As the PIFC system is built, its purpose and role become increasingly clear, while its benefits and the interdependence with other reform processes being simultaneously conducted can be more readily perceived.

The last strategic document for PIFC development adopted by the Croatian Government in September 2009 clearly underscores the need for firmer links between PIFC and the budget system.

Major budgetary reforms have been initiated simultaneously. However, we are aware that their implementation is directly contingent upon the quality of the system of financial management, control and internal auditing.

Today, provisions have been written into the text of the draft Fiscal Accountability Act which stress the importance of efficient functioning of the public internal financial control system at the budget user level. Nobody is entitled to engage in irresponsible spending of budgetary funds, and the public internal financial control system is just the tool to prevent something like this from happening.

Attempts are being made to carry forward the initiated public administration reform and rationalization with complete validation of the elements of the public internal financial control system, particularly where this pertains to the creation of suitable organizational structures that create the prerequisites for easier management and oversight of operations.

And finally, given the very topical "fight against corruption," it is worthwhile noting that this fight is being waged not just by detecting and punishing perpetrators, but also by creating institutional conditions that will prevent potential corruption from even arising.

The role of PIFC toward this purpose has been acknowledged, and all strategic documents pertaining to anti-corruption measures adopted by the Croatian Government incorporate the development of the financial management, control and internal audit system as one of the key measures.

Development of the public internal financial control system and introduction of the personal identification number, which I take this opportunity to highlight, are key projects meant to bring order to public finances, and as such they are crucial to the fight against corruption.

By incorporating PIFC into all spheres of public administration, I believe we are well on the way to making PIFC sustainable, and demonstrating its genuine rationale and effects.

Development of the PIFC system is one of those “quiet reforms” in the system of public administration. The PIFC system has introduced a new way of thinking and acting, and since 2004 Croatia has been going in this direction: strategic thinking, definition of objectives and success indicators for their achievement, and assumption of responsibility for what has been done. PIFC is a system that introduces order and discipline to public finance and this is why this project has had my full support all of these years.

We are aware of the need for further continued development of the operating methodology in this field and strengthening administrative capacity, especially where expertise is concerned, but more than anything else we are cognizant of the need to enhance public sector accountability at all management levels. And this is what we shall continue to do.

I am pleased that we can share our experiences with you, and that this conference shall serve as an opportunity for all of us to enrich our knowledge together.

**DEPUTY PRIME MINISTER
OF THE REPUBLIC OF CROATIA
MINISTER OF FINANCE**

Ivan Šuker