

PUBLIC INTERNAL FINANCIAL CONTROL LAW

I. GENERAL PROVISIONS

CONTENT AND FIELD OF APPLICATION OF THE LAW

Article 1

(1) This Law shall provide for the system of internal financial controls encompassing financial management and control, and internal audit in public sector in the Republic of Croatia.

(2) This Law shall define the methodology, standards, relationships and responsibilities, and competence of the Ministry of Finance and other bodies in the implementation of the public internal financial controls system.

Article 2

The provisions contained in this Law shall pertain to Budget Users and extra-budgetary institutes, i.e. the funds (hereinafter referred to as Users of Budget).

Article 3

(1) The public internal financial control system shall represent an overall system of financial and other controls put in place by the User of Budget Head for the purpose of a successful management and achievement of objectives of the User of Budget.

(2) The Public Internal Financial Control system shall comprise two basic elements:

- a) Financial Management and Control,
- b) Internal Audit.

(3) The Ministry of Finance shall be competent for coordinating the establishment and development of the public internal financial control system. The Department for Harmonisation of Internal Audit and Financial Control, as the Central Harmonisation Unit (hereinafter: the Central Harmonisation Unit within the Ministry of Finance) shall be in charge of implementing coordination.

Responsibility of the User of Budget Head

Article 4

(1) The User of Budget Head and a person with delegated authorities and responsibilities shall be responsible for the establishment, development and implementation of the internal financial controls system.

(2) Notwithstanding the delegation of authorities and responsibilities to other persons, the User of Budget Head shall be accountable for the establishment, development and implementation of the internal financial controls system.

MEANING OF TERMS

Article 5

In the context of this Law, certain terms shall have the following meaning:

1. **Effectiveness** shall imply the extent to which objectives are achieved, i.e. the relationship between the intended impact and the actual impact of an activity;
2. **Economy** shall be minimizing the cost of resources used for the performance of an activity, having regard to the appropriate quality;
3. **Financial Management and Control** shall be the overall system of internal controls set up by the Users of Budget Heads who are in charge of it, these controls provide, by risk management, reasonable assurance that in pursuit of the objectives budgetary and other funds will be executed in an orderly, ethical, economical, effective and efficient manner. It shall imply the compliance with laws and other regulations, safeguarding resources against loss, misuse and damage. This system shall encompass all business transactions related to revenues/receipts, expenses/expenditures, tendering procedures and contracting, recovery of unduly paid amounts, assets and liabilities.
The internal controls system shall be performed by the Heads and employees of the User of Budget;
4. **Financial Controller** shall be a person authorised to check draft financial decisions for legality and regularity, with a view to approving or disapproving the draft decisions, whilst taking into account the principles of economy, efficiency and effectiveness;
5. **Extra-budgetary Institute, i.e. Fund** shall be an extra-budgetary user, a legal person established on the basis of a law and financed from the earmarked contributions and other revenues (in the sense of this Law, these shall be: the Croatian Pension Insurance Institute, the Croatian Health Insurance Institute and the Croatian Employment Bureau and others);
6. **Public sector** shall be comprised of State Budget Users and local and regional self-government units' budget users, institutions and extra-budgetary institutes, i.e. funds;
7. **Control** shall be every activity taken by management for the purpose of managing risks and increasing likelihood of the achievement of goals and objectives;
8. **Mission** shall be the main reason for the existence and operation of the User of Budget, and shall consist of the field of activity, the value and objectives to be achieved;
9. **Supervision** shall be a managerial responsibility that helps the User of Budget to achieve their objectives. Supervision, i.e. assigning, reviewing and approving an employee's work encompasses: clear segregation of duties and responsibilities assigned to each staff; systematically reviewing each member's work to the necessary extent and approving work at critical points to ensure that it flows as intended.

Delegation of work to staff shall not diminish the Head's accountability for these delegated duties and responsibilities. Through supervision, the Heads also provide employees with the necessary training and guidance to help ensure that errors, waste and wrongful acts are minimised and that management directives are understood and achieved.

10. **Ex-post controls** shall be controls directed towards the detection of possible mistakes, irregularities and fraud, and shall be performed following the completion of a business event on occasional basis in compliance with a plan or upon request. Ex-post controls shall check whether the budgetary and other resources were collected and spent in a legal, purposeful and timely manner and in accordance with the assumed obligations, as well as the achievement of the expected results in the use of budgetary and other funds;

11. **Irregularity** shall be non-adherence to or an erroneous application of laws and other regulations stemming from actions or failures of the User of Budget, and which have or might have a detrimental impact to budgetary funds and funds from other resources, irrespective of whether it involves revenues/receipts, expenses/expenditures, recoveries, assets and liabilities;

12. **Irregularities Officer** shall be a person to whom information on irregularities and suspected cases of fraud shall be communicated and who shall be responsible for taking actions against the irregularities and fraud;

13. **Ex-ante controls** shall be controls directed to ensure the legality and regularity of financial decisions. They shall be carried out on an ongoing basis in all stages of a process before decision-making on the use of budgetary and other funds, i.e. before a business event;

14. **Budget Users** shall be state bodies and local and regional self-government units and their bodies, institutions, minorities' self-government councils, budgetary funds and community self-government whose expenses for employees and/or material expenses are made available in the budget;

15. **Fraud** shall be an intentional action or a failure pertaining to a false, inaccurate or incomplete presentation of facts and to abuse, having a negative impact to revenues and expenditures, i.e. national budgetary funds, EU funds and funds from other sources, as a consequence.

16. **Audit trail** shall represent a documented flow of financial and other transactions from its initiation to its end, in order to enable the retracing of all individual activities and their authorisation. It shall encompass the maintenance of documenting, reporting, accounting and filing systems..

17. **Risk** shall be the possibility that an event will occur and adversely affect the achievement of objectives;

18. **Efficiency** shall be the best ratio between results and resources used for their achievement;

19. **Internal audit** shall be an independent activity aimed at assessing the internal controls systems, giving independent and objective assurance and advice for the improvement of operations; it shall help the User of Budget achieve its objectives by introducing a systematic, disciplined approach to evaluating and improving effectiveness of risk management, control and governance processes.

II. FINANCIAL MANAGEMENT AND CONTROL

PURPOSE OF FINANCIAL MANAGEMENT AND CONTROL

Article 6

(1) The purpose behind the introduction of financial management and control shall be the improvement of financial management and decision-making for the purpose of achieving general objectives, such as:

- a) performance of operations in a regular, ethical, economical, efficient and effective manner;
- b) compliance of operations with laws, regulations, policies, plans and procedures;
- c) safeguard of assets and resources against losses caused by mismanagement, unjustified spending and use, as well as irregularities and fraud;
- d) strengthening of the responsibility for a successful fulfilment of tasks;
- e) timely financial reporting and monitoring of the operations' results.

(2) Financial management and control shall be carried out in all organisational units and at all levels of the User of Budget, and shall encompass all funds of the User of Budget, including the European Union and other funds.

(3) The system should be continuously assessed and developed for an efficient achievement of missions and objectives of the User of Budget.

MANAGERIAL ACCOUNTABILITY

Article 7

(1) The User of Budget Head shall be responsible for:

- a) establishment of an adequate, efficient and effective system of financial management and control;
- b) production and implementation of strategic and other plans, as well as of programmes for the achievement of the User of Budget goals and objectives;
- c) legal, purposeful, efficient, economical and effective disposition of budgetary and other funds;

- d) definition and achievement of objectives of the organisation, risk management and introducing proper and efficient internal controls in accordance with the provisions of this Law and the international internal control standards;
- e) establishment of reporting lines in accordance with the transferred authorities and responsibilities;
- f) competency of all staff concerning the performance of tasks in accordance with financial management and control.

(2) The User of Budget Head may delegate authority to other persons on the basis of internal order acts and acts on manners of work. The delegation of authority shall imply the delegation of the responsibility as well, whereas the delegation of authority and responsibility shall not exclude the responsibility of the User of Budget Head.

(3) The Heads of internal organisational units shall be responsible to the User of Budget Head for the activities relative to financial management and control in organisational units which they shall establish according to their specifics and the guidelines of the Central Harmonisation Unit within the Ministry of Finance.

Article 8

(1) In addition to the User of Budget Head, the persons in charge of the establishment, implementation and development of financial management and control shall be:

- a) Financial Management and Control Head;
- b) Financial Management and Control Coordinator.

(2) The Financial Management and Control Head, who shall be appointed by the User of Budget Head, shall be responsible for the establishment, implementation and development of Financial Management and Control with the User of Budget. With the consent of the User of Budget Head, the Head shall be obliged to develop a plan for the establishment of financial management and control and a methodology for the plan execution.

(3) Taking account of the needs and specific features of operations of the Users of Budget, the User of Budget Head may appoint a Financial Management and Control Coordinator or establish a Financial Management and Control Unit. The Coordinator shall operationally carry out and coordinate the establishment and development of financial management and control in the User of Budget. He shall not perform control activities set forth in Article 12 of this Law.

(4) The persons in charge of the establishment and development of financial management and control referred to in paragraph 1 of this Article and persons in charge of performing individual forms of controls referred to in Article 12, paragraphs 5 and 6 of this Law, shall be obliged to undergo a financial management and control related training on the basis of a programme passed by the Minister of Finance and shall be obliged to cooperate with the Central Harmonisation Unit within the Ministry of Finance in respect of the financial management and control establishment and development.

FINANCIAL MANAGEMENT AND CONTROL COMPONENTS

Article 9

(1) Financial management and control shall be carried out through interlinked components, and they are:

- a) control environment;
- b) risk management;
- c) control activities;
- d) information and communication;
- e) monitoring and assessment of the system.

(2) The User of Budget Head shall be obliged for the implementation of financial management and control by applying the components referred to in paragraph 1 of this Article.

(3) Financial management and control referred to in paragraph 1 of this Article shall be carried out in compliance with international internal control standards.

Control Environment

Article 10

(1) Control environment shall be the basis for all components referred to in Article 9, paragraph 1, and shall ensure conditions for an efficient control functioning.

(2) Control environment shall pertain to:

- a) personal and professional integrity and ethical values of staff;
- b) management and management style;
- c) definition of missions and objectives;
- d) organisational structure, including the assignment of authorities and responsibilities and ensuring an adequate reporting line;
- e) human resources management written rules and practice;
- f) staff competency.

Risk Management

Article 11

(1) Risk management shall include the overall process to, having in mind the User of Budget objectives, identify, assess and monitor risks and to take necessary actions, in particular through modification of the financial management and control system, with the purpose of reducing risks.

(2) In order to put the activities referred to in paragraph 1 of this Article in place, the User of Budget Head shall pass the Risk Management Strategy, whereby updating of risks of significance for the overall operations would be carried out once a year. The control activities aimed at minimising the risks should be analysed and updated at least once a year.

Control Activities

Article 12

(1) Control activities shall be based on the written rules and principles, procedures and other measures set up to achieve the objectives of the User of Budget by reducing risks to an acceptable level.

(2) Control activities should be adequate and timely, whereas costs related with their establishment must not exceed the expected benefits.

(3) Control activities shall, *inter alia*, refer to:

- a) authorisation procedures undertaken subsequent to execution of preventive and detective controls that are outlined in checklists, as necessary;
- b) recording and authorisation of exceptions which were authorised by the User of Budget Head, to established procedures;
- c) authorities and responsibilities transfer procedures;
- d) segregation of duties in the field of granting authorisations for the preparation, processing, recording and payments, and controlling;
- e) double signature system;
- f) rules to ensure safeguarding of assets and information;
- g) procedures for complete, accurate, regular and prompt recording of all business transactions,
- h) human resources management procedures;
- i) procedures of monitoring financial management and control;
- j) assessment of the efficiency and effectiveness of transactions and reporting;
- k) rules on documenting all controls, financial decisions, exceptions to rules, transactions, recording and actions related to the activities of a User of Budget;
- l) supervision.

(4) The control activities referred to in paragraph 3 of this Article shall be established as ex-ante and ex-post controls.

The User of Budget Head may in addition, and subsequent to a risk analysis indicating business processes or transactions exposed to higher risks, decide to establish an ex-ante control function to be assumed by a financial controller and an ex-post control function. Each User of Budget Head shall decide on the forms of ex-ante and ex-post controls, taking account of the needs and specifics in the operations.

(5) The User of Budget Head may appoint persons to perform ex-ante controls for those business processes or transactions exposed to a greater risk or those of greater significance for the User of Budget.

Ex-ante control shall also include independent preventive and detective controls of financial decisions up to the final decision-making, and including their execution.

(6) The User of Budget Head may appoint persons to perform ex-post controls, i.e. controls after decision-making or completion of a business event.

Ex-post control shall include detective controls following the execution of authorised financial decisions.

(7) Ex-post control cannot be performed by a person responsible for or involved in the performance of ex-ante control.

Information and Communication

Article 13

(1) The information systems reports and other reports shall contain business information which shall enable management and control of operations.

(2) The information should be adequate, prompt, accurate and available for the purpose of:

- a) efficient communication at all levels of the user;
- b) development of a proper management information system with specifically defined roles of each employee involved in financial management and control;
- c) documenting all processes and transactions, including system descriptions in flowcharts, accounting and filing system with a view to provide for an adequate audit trail.
- d) development of an efficient, timely and reliable reporting system, which shall include: managerial level to which reports shall be submitted, reporting deadlines; reporting forms and special cases pertaining to the identification of errors, irregularities, abuse or fraud.

Monitoring and Assessment of the System

Article 14

(1) The User of Budget Head shall be responsible for timely monitoring and assessment of the system in accordance with the provisions contained in paragraphs 2 and 3 of this Article.

(2) Monitoring of the financial management and control system shall be carried out with a view to evaluate its adequate functioning and guaranteeing its timely updating.

(3) Monitoring and assessment of the system shall be mainly accomplished through on-going monitoring, self-assessment and internal audit.

REPORTING ON FINANCIAL MANAGEMENT AND CONTROL

Article 15

(1) The User of Budget Head shall notify the Central Harmonisation Unit within the Ministry of Finance, on the functioning, effectiveness and efficiency of financial management and control.

(2) The Minister of Finance shall laid down by the Instruction the form, content, procedures and deadlines for reporting referred to in paragraph 1 of this Article.

(3) The Financial Management and Control Head shall prepare an annual report on the activities relative to the financial management and control establishment and development and shall be obliged to submit it, upon the endorsement of the User of Budget Head, to the Central Harmonisation Unit within the Ministry of Finance by 31 January of the current year for the previous year.

(4) The State Audit Office, the judiciary bodies and other Users of Budget directly reporting to the Croatian Parliament shall not be obliged to act in keeping with the provisions contained in paragraphs 1 and 3 of this Article.

III. INTERNAL AUDIT

THE ROLE AND PURPOSE OF INTERNAL AUDIT

Article 16

(1) Internal audit shall:

- a) be an integrated part of the overall Public Internal Financial Control system;
- b) be an independent and objective activity for providing assurance and consulting services aimed at adding value and improving the operations of the User of Budget;
- c) assist the User of Budget in the achievement of its goals by applying a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes.

(2) Internal audit shall support the User of Budget in the achievement of its goals by:

1. Preparing strategic and annual internal audit plans based on the objective risk assessment, and performing individual internal audits in accordance with adopted plans;

2. Evaluating the adequacy and effectiveness of financial management and control systems in relation to:

- a) Risk identification, risk assessment and risk management;
 - b) Their compliance with laws and other regulations;
 - c) Reliability and comprehensiveness of financial and other information;
 - d) Efficiency, effectiveness and economy of operations;
 - e) Safeguarding of assets and information;
 - f) Performance of tasks and achievement of goals.
3. Providing recommendations for improving the operations.

(3) Internal audit shall:

- a) comprise the following stages: risk assessment, planning, performance of audit, reporting and follow-up of recommendations made;

- b) be performed mainly through systems-based audits, compliance audits, performance audits, financial audits and IT audits;
- c) consist of an objective evaluation of evidence by the internal auditor in order to provide an independent opinion or conclusion concerning a process, a system or another field covered by the audit.

(4) Internal audit with those Users of Budget which use the European Union Funds shall contribute by its assurance to the protection of the European Union financial interests.

ESTABLISHING INTERNAL AUDIT WITH USERS OF BUDGET

Article 17

(1) The Users of Budget shall be obliged to establish Internal Audit in one of the following manners:

- a) establishment of an independent Internal Audit Unit directly reporting to the User of Budget Head or by appointment of an internal auditor directly reporting to the User of Budget Head;
- b) establishment of a joint internal audit unit, at the proposal of several Users of Budget, with prior consent given by the Minister of Finance;
- c) agreement on performing internal audit work with a competent ministry/institution and a local and regional self-government unit, with prior consent given by the Minister of Finance.

(2) The Minister of Finance shall prescribe criteria for establishing internal audit with Users of Budget in a Rulebook, depending on the number of employees and financial resources made available to them.

(3) The Users of Budget using the European Union funds shall be obliged to establish their own Internal Audit Unit, in agreement with the provisions contained in Article 32 of this Law.

(4) Internal audit, founded upon an objective risk assessment and established according to the provisions contained in paragraph 1 of this Article shall be performed by the persons possessing a Minister of Finance's certification.

REQUIREMENTS TO BE MET BY AN INTERNAL AUDITOR

Article 18

(1) An Internal Auditor must meet certain criteria, as follows:

- a) university degree;
- b) requirements prescribed for the admission to civil service;
- c) Minister of Finance's certification for the performance of the Public Internal Audit work, which shall be acquired in accordance with the training programme and Instruction passed by the Minister of Finance.

(2) Those internal auditors who acquired certificate of certified auditor, certified internal auditor from another professional institution, and certified state auditor shall be able to acquire the Minister of Finance's certification after the check of their knowledge, i.e. after the passage of an exam conducted by the Central Harmonisation Unit within the Ministry of Finance in keeping with the programme referred to in item c) of paragraph 1 of this Article.

Article 19

(1) An Internal Auditor shall solely perform internal audit affairs and in performing those affairs shall report directly to the User of Budget Head and the Internal Audit Unit's Head.

(2) Internal Audits shall be performed by a Certified Internal Auditor or an audit team headed by Certified Internal Auditor acting as a team leader designated by the Internal Audit Unit Head.

(3) An Internal Auditor may be assisted in his/her work by a person assigned for the performance of internal audit affairs, under condition that a functional independence of internal audit is not menaced.

(4) The Internal Audit Unit Heads may engage experts possessing specialised knowledge to provide assistance in the performance of internal audits in specific fields with the consent of the User of Budget Head.

Article 20

(1) The Internal Audit Unit Head of a User of Budget shall be appointed by the respective User of Budget Head, to whom he/she shall directly report.

(2) The Internal Audit Unit Head must meet the requirements as laid down in Article 18 of this Law.

(3) The Internal Audit Unit Head must have at least five years of working experience, with at least two years of audit experience.

INDEPENDENCE OF THE INTERNAL AUDIT UNIT AND INDEPENDENCE OF INTERNAL AUDITORS

Article 21

(1) The Internal Audit Unit shall be established at the highest organisational level and shall organisationally and functionally report directly and exclusively to the User of Budget Head. The Internal Audit Units' functional independence shall be achieved through independence in relation to other organisational units of the User of Budget in planning their work, performance of internal audits and reporting.

(2) The Internal Audit Unit or an Internal Auditor may not be involved in the execution of direct functions of the User of Budget.

Article 22

(1) Internal Auditors shall be independent in the performance of internal audit work performed in a professional and competent manner, applying the methodology based on the international auditing standards, and the principles and rules of the Internal Auditors' Professional Code of Ethics.

(2) In performing internal audits, Internal Auditors shall have full, free and unrestricted right of access to the overall documentation, data and information stored at all data carriers, management, staff and tangible assets.

(3) Internal Auditors shall be obliged to observe secrecy of data and information made available to them during the course of an internal audit performance, unless otherwise stipulated by the law.

Article 23

(1) Independence of Internal Auditors shall be achieved by independence in their work as well as by inability to have them dismissed or transferred to another position for presenting factual status and making certain recommendations.

(2) Prior to disciplinary measures, transfers or dismissal of Internal Auditors, the User of Budget Head shall be obliged to inform the Central Harmonisation Unit within the Ministry of Finance and provide all necessary documentation.

INTERNAL AUDIT STANDARDS AND WORK METHODOLOGY

Article 24

(1) Internal Audit shall be carried out in accordance with:

- a) International Auditing Standards for Internal Audit;
- b) regulations and guidelines providing for Internal Audit in the Republic of Croatia.

(2) In their work, Internal Auditors shall be obliged to apply the Internal Auditors' Charter, Internal Auditors' Professional Code of Ethics and Internal Auditors' Manual prepared by the Central Harmonisation Unit within the Ministry of Finance, and endorsed by the Minister of Finance.

Article 25

(1) The Internal Auditors' Manual shall prescribe the methodology of work and of carrying out internal audits. For the purpose of a standardised manner of carrying out the audits, the Manual shall be produced and updated by the Central Harmonisation Unit within the Ministry of Finance with the endorsement of the Minister of Finance.

(2) Due to the specificity of their operations, the Users of Budget Internal Audit Units may develop their own annexes to the Internal Auditors' Manual.

(3) In the event referred to in paragraph 2 of this Article, the annexes to the Manual shall be submitted to the Central Harmonisation Unit within the Ministry of Finance for the purpose of obtaining consent.

Article 26

(1) The Internal Auditors' Charter shall provide for the rights and duties of Internal Auditors in relation to the audited unit. The Charter shall be passed by the User of Budget Head on the basis of a template prepared by the Central Harmonisation Unit within the Ministry of Finance. In addition to the Head, the Charter shall also be signed by the Internal Audit Unit Head.

(2) The Charter shall be supplied to the Central Harmonisation Unit within the Ministry of Finance for the purpose of establishing and maintaining the Register of Internal Auditors' Charters.

(3) Prior to the commencement of carrying out an internal audit, internal auditors shall be obliged to hand out the Internal Auditors' Charter to the audited unit's authorised person.

Article 27

The Internal Auditors' Professional Code of Ethics shall prescribe principles and rules Internal Auditors must adhere in the performance of internal audits. The Code shall be passed by the Minister of Finance.

Internal Audit Planning and Performance

Article 28

(1) Internal audit shall be carried out in accordance with:

- a) strategic plan for a three-year period,
- b) annual plan,
- c) individual audit plan.

(2) The Strategic and Annual plans for the performance of internal audits, as well as their amendments, on the basis of risk assessment shall be produced by the Internal Audit Unit Head and endorsed by the User of Budget Head. Should the User of Budget Head fail to endorse the incorporation of individual audits into the strategic or annual plans, the Internal Audit Unit Head shall be obliged to communicate such a fact to the Central Harmonisation Unit within the Ministry of Finance in writing.

(3) The Strategic plan shall be passed by the end of the a current year for the forthcoming three-year period and the Internal Audit Annual plan shall be passed by the end of a current year for the following year.

(4) For each audit, an individual internal audit plan shall be drawn up detailing the scope, objectives, duration and allocation of resources for audit performance, the audit approach, techniques, and the types and volume of audit procedures.

The Head of Internal Audit Unit shall approve the individual audit plan and related work programmes that shall describe in detail audit procedures. The audit shall be performed by identifying, analysing, evaluating and documenting sufficient information to express an opinion as to the set objectives.

Reporting and follow-up of internal audit recommendations

Article 29

(1) For every performed audit, an audit report shall be prepared which shall contain an executive summary, objectives and scope of audit, findings, conclusions and recommendations, as well as response of the authorised person of the audited unit.

(2) A final audit report shall be approved and distributed by the Head of Internal Audit Unit to the User of Budget Head, the latter shall decide on acceptance of recommendations within the deadline not later than 30 days.

(3) In case the User of Budget Head does not accept or partially accept recommendations, these non-accepted recommendations and the reasons therefore should be recorded in a written response of the auditee and in the closing meeting minutes. In case that internal auditor's recommendation refers to high risky area, the User of Budget Head shall need to take adequate measures without delay.

(4) The User of Budget Head shall decide on and produce an action plan that shall include the accepted recommendations, actions to be taken, including the means to organise and monitor its implementation in detail.

(5) The accepted action plan shall be submitted to the Head of Internal Audit Unit by the User of Budget Head. Internal audit shall not be involved in preparation and implementation of the action plan. The User of Budget Head shall decide on starting, delaying, cancelling and completion of certain recommendations set forth in the action plan, which shall be recorded in a written response of the auditee.

(6) Internal audit shall follow whether the recommendations were implemented in an adequate, effective and timely manner. The activities of follow-up of the recommendations given in an audit report, shall be included in the annual internal audit plan for the coming period.

DUTIES OF THE INTERNAL AUDIT UNIT HEAD

Article 30

(1) The Internal Audit Unit Head, i.e. the Internal Auditor, shall be obliged to prepare an annual report on the performed audits and on internal audit activities in accordance with the guidelines of the Central Harmonisation Unit within the Ministry of Finance.

(2) The report referred to in paragraph 1 of this Article shall be supplied to the Central Harmonisation Unit within the Ministry of Finance following the endorsement by the User of Budget Head.

Article 31

(1) No later than by 31 January, the Internal Audit Unit Head, i.e. the Users of Budget, with the endorsement of the User of Budget Head shall be obliged to supply the Central Harmonisation Unit within the Ministry of Finance with the following:

- a) Strategic Internal Audit Plan (updated on an annual basis) for the next three-year period;
- b) Annual Internal Audit Plan for the current year;
- c) Annual Internal Audit Report for the previous year.

(2) The Annual internal audit report shall cover:

- a) Review of audits performed and where applicable, deviations from the annual audit plan stating the reasons of deviations or non-fulfilment of a plan;
- b) The main conclusions regarding the functioning of financial management and control system, and the recommendations made to improve the operations of the User of Budget;
- c) Actions undertaken by the User of Budget Head to implement material recommendations, and material recommendations which were not implemented;
- d) Any cases of violation and wrong application of laws and other regulations and any indications of fraud;
- e) Proposals for the development of internal audit.

(3) The Internal Audit Unit Head shall be obliged to also file individual or interim reports at the request of their respective Heads of the Users of Budget or the Central Harmonisation Unit within the Ministry of Finance.

(4) The Users of Budget reporting directly to the Croatian Parliament as referred to in Article 15, paragraph 4 shall not be obliged to act in accordance with the provisions contained in paragraphs 1 and 2 of this Article.

INTERNAL AUDIT OF THE EUROPEAN UNION FUNDED PROGRAMMES AND PROJECTS

Article 32

The Internal Audit Units of those Users of Budget authorised for the implementation of the European Union funded programmes and projects shall perform internal audit of administration, and internal audit of financial and technical-management systems. Internal audits shall be carried out with the Users of Budget or another institution authorised for the implementation of programmes and projects fully or in part funded by the European Union, including all other participants who received funds for programmes and projects of the European Union.

COOPERATION WITH OTHER BODIES

Article 33

(1) The Internal Audit Unit Head and internal auditors shall be obliged to cooperate with the Central Harmonisation Unit within the Ministry of Finance in order to receive all necessary guidelines, data and support.

(2) The Internal Audit Unit Head shall cooperate with the State Audit Office and provide at their request all information concerning the content of the completed internal audits. Other forms of cooperation shall take place at the request of the State Audit Office.

IV. PUBLIC INTERNAL FINANCIAL CONTROL COUNCIL

Article 34

(1) The Public Internal Financial Control Council (hereinafter: the Council) shall be established for the purpose of development of financial management and control, and internal audit. The Council shall be an advisory body of the Minister of Finance and it does not have management power.

(2) Should the Council establish that there are some open issues arising out of its work, it shall inform the Government of Croatia on these issues for the purpose of taking adequate actions.

(3) The Council's members shall be appointed by the Government of the Republic of Croatia at the proposal of the Minister of Finance from amongst the persons possessing the knowledge and experience in the area of financial management and control, internal and external audit, and from amongst the Heads of Users of Budget.

(4) The members of the Council shall be summoned depending on the subjects which the Council shall consider.

(5) The Minister of Finance shall be the Council Chairman.

(6) The Council shall focus its work on the following topics:

- a) Improvement of risk management and self-assessment of internal control undertaken by the Users of Budget Heads.
- b) Follow-up of the activities taken by the Users of Budget Heads, following their risk assessment and internal control self-assessment.
- c) Follow-up of recommendations, by the Users of Budget Heads, which were given by internal audit and the State Audit Office.
- d) Safeguarding of functional independence and development of internal audit.
- e) Provide recommendations for development of financial management and control, and internal audit.

- f) Evaluation of the justification of reasons for the dismissal and/or transfer of the Internal Audit Units' Heads.
- g) Provide advice and opinion, if judged appropriate, on the Consolidated Annual Public Internal Financial Control Report (managerial accountability, financial management and control, internal audit) before its endorsement by the Minister of Finance and subsequent submission to the Government of the Republic of Croatia.

(7) At the request of the Council, the Central Harmonisation Unit within the Ministry of Finance will put at the Council's disposal the information necessary for the performance of its work. The Council's members shall act according to the rules and procedures they establish themselves.

(8) The Council shall assemble as needed and at least three times per annum.

V. CENTRAL HARMONISATION UNIT WITHIN THE MINISTRY OF FINANCE

Article 35

(1) The Central Harmonisation Unit within the Ministry of Finance shall be in charge of:

- a) preparing laws and bylaws from the field of financial management and control, as well as of internal audit;
- b) development of methodology and work standards for financial management and control, as well as for internal audit;
- c) organising training of persons responsible for and involved in financial management and control, as well as internal audit;
- d) coordinating the establishment and development of the public internal financial control system;
- e) providing opinion on transfer and dismissal of Internal Auditors referred to in Article 23, paragraph 2 of this Law;
- f) keeping and maintaining the register of internal audit units, the register of internal auditors' charters, the register of certified auditors and the register of persons involved in financial management and control referred to in Article 8, paragraph 1 of this Law;
- g) establishing and maintaining a website containing data on the activities of the Central Harmonisation Unit within the Ministry of Finance, training and acquisition of certification for the profession of a certified internal auditor.

(2) The Central Harmonisation Unit within the Ministry of Finance shall compile the Consolidated Annual Public Internal Financial Control Report and its work, on the basis of annual reports of the Users of Budget on the activities related to the establishment and development of financial management set forth in Article 15, paragraph 3 of this Law and annual reports on performed internal audits and activities of internal audit referred to in Article 30, paragraph 1 of this Law.

The Consolidated Annual Report, after it was discussed by the Council, shall be endorsed by the Minister of Finance and submitted to the Government of the Republic of Croatia. The Report shall be submitted by the end of April of the current year for the previous year.

(3) The Consolidated Annual Report referred to in paragraph 2 of this Article shall contain summarised and significant data on financial management and control, significant internal audit findings and recommendations, and important activities to be undertaken by the User of Budget Head for the purpose of improvement of the internal financial controls system.

(4) The Minister of Finance shall pass the Instruction according to which the Users of Budget shall be obliged to submit the Annual Report on the Internal Financial Controls System and their work.

(5) The Central Harmonisation Unit within the Ministry of Finance shall be entitled to perform quality checks of the FMC and internal audit system aiming at an adequate follow-up of recommendations and their harmonisation in Budget Users to which this Law refers, for the purpose of gathering information to improve the methodology and work standards.

VI. TAKING ACTIONS AGAINST IRREGULARITIES AND FRAUD

Article 36

(1) The User of Budget Head shall be obliged to prevent risk related to irregularities and fraud and to take actions against irregularities and fraud.

(2) The User of Budget Head shall be obliged to appoint an Irregularities Officer who shall receive the notifications on irregularities and suspected cases of fraud or to autonomously take actions against irregularities and fraud.

(3) Internal auditors, persons involved in financial management and control, as well as other employees shall report suspicions of fraud or adequate findings on irregularities simultaneously to the User of Budget Head and the Irregularities Officer.

(4) Should an internal auditor have suspicion of fraud during the course of an audit, he/she shall inform the Internal Audit Unit Head accordingly who, in turn, shall be obliged to stop any further performance of the audit and file a written report to the User of Budget Head and the Irregularities Officer.

(5) Upon the receipt of a notification on an irregularity or suspicion of fraud, the User of Budget Head or the Irregularities Officer shall take adequate measures and inform the State Attorney of the Republic of Croatia and the body in charge of irregularities and fraud within the Ministry of Finance and within 15 days shall inform in writing the person who alerted to an irregularity or fraud as to the measures taken, except in a case of an anonymous notification.

(6) Should there be a failure in informing the persons referred to in paragraph 3 of this Article as to the adequate measures being taken those persons shall inform the body in charge of irregularities and fraud accordingly referred to in paragraph 5 of this Law. The Central Harmonisation Unit within the Ministry of Finance shall not be the body to which irregularities and fraud are to be referred.

(7) The persons referred to in paragraph 3 of this Article shall be guaranteed against the disclosure of their identity and with the preservation of their labour rights on the basis of the legal regulations of the Republic of Croatia.

(8) The procedures in cases of irregularities and fraud in relation to competent bodies of the Republic of Croatia and the European Union and other relevant issues shall be provided for in special regulations.

VII. TRANSITIONAL AND FINAL PROVISIONS

Article 37

Within 12 months after the effective date of this Law, the Minister of Finance shall:

- a) pass the training program pertinent to financial management and control establishment and development referred to in Article 8, paragraph 4 of this Law;
- b) pass the training program for acquiring the Minister of Finance's certification for the performance of public internal audit work referred to in Article 18, paragraph 1, item c) of this Law;
- c) propose to the Government of the Republic of Croatia the members of the Public Internal Financial Control Council referred to in Article 34, paragraph 3 of this Law;
- d) pass the Budget Users' Internal Audit Rulebook referred to in Article 17, paragraph 2 of this Law, which shall also prescribe other internal audit related issues, as necessary;
- e) pass bylaws to provide for the activities to be taken in order to establish the financial management and control system, coupled with the implementation deadlines.

Article 38

(1) The User of Budget Head shall appoint a Financial Management and Control Head referred to in Article 8, paragraph 1 of this Law within 60 days after the effective date of this Law.

(2) A decision on the need of appointing a Financial Management and Control Coordinator referred to in Article 8, paragraph 1 of this Law shall be made by the User of Budget Head on the basis of an assessment.

(3) The Financial Management and Control Head shall, with consent of the User of Budget Head, pass the Financial Management and Control System Establishment and Development Plan referred to in Article 8, paragraph 2 of this Law within six months after the effective date of this Law.

(4) The User of Budget Head shall appoint an Irregularities Officer in keeping with the provisions contained in Article 36, paragraph 2 of this Law within 90 days after the effective date of this Law.

Article 39

The Users of Budget shall be obliged to establish internal audit according to the provisions contained in Article 17, paragraph 1 of this Law within 12 months from the effective date of this Law.

Article 40

(1) A person assigned to perform the work of an internal auditor shall be obliged to acquire certification for the performance of internal audit affairs within one year after being assigned to such a position.

(2) Should the person assigned to perform the work of an internal auditor fail to acquire the certification within the specified term, an additional six-month period shall be approved for the acquisition of certification.

(3) If, within a deadline referred to in paragraph 2 of this Article, a justified reason related to the impossibility of acquiring the certification occurs to a person performing internal audit work, this deadline shall cease and it shall continue from the date of justified reason cessation.

(4) Should the person fail to acquire the certification within the prescribed deadlines, such a person shall be assigned to another position matching his/her qualifications and skills.

(5) The provisions of Article 20, paragraph 3 of this Law shall apply upon the expiry of three years from the effective date of this Law.

Article 41

Until the passage of the regulation referred to in Article 37, item d) of this Law, the Budget Users' Internal Audit Rulebook (Official Gazette "*Narodne novine*" No. 150/05) shall be applied.

Entry into Force

Article 42

This Law shall enter into force on the eighth day following its publication in the Official Gazette "*Narodne novine*".

Class: 470-03/06-01/02
Zagreb, 15 December 2006

CROATIAN PARLIAMENT
President
of the Croatian Parliament.
Vladimir Šeks