

Pursuant to Article 37, paragraph 1, item e) of the Public Internal Financial Control System Act (Official Gazette *Narodne novine*, No.141/06), the Minister of Finance shall hereby adopt the

PUBLIC

FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

RULEBOOK

I. GENERAL PROVISIONS

Article 1

This Rulebook shall provide for financial management and control implementation and implementation coordination, financial management and control reporting and financial management and control quality assurance.

Article 2

The provisions contained in this Rulebook shall pertain to the budgetary and extra-budgetary users of the state budget and of the local and regional self-government budgets as identified in the Budget and Extra-Budgetary User Register as well as to local and regional self-government units (hereinafter referred to as budget users).

Article 3

Financial management and control shall be carried out in all organisational units and at all budget user level and shall encompass all business transactions, especially those related to the planning and execution of budgets or financial plans, public procurement, accounting and reporting.

Article 4

(1) Budget user heads shall be responsible for the establishment, development and implementation of an adequate, efficient and effective financial management and control system.

(2) In addition to the budget user head, the establishment, development and implementation of a financial management and control system shall also fall under the responsibility of the heads of organisational units, i.e. persons to which the budget user head shall delegate the authorities and responsibilities in keeping with the internal organisation enactments and internal decisions.

(3) Delegation of the authorities and responsibilities shall not exclude the budget user head's accountability.

II. FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

Article 5

- (1) Financial management and control shall be carried out via a set of interrelated components elaborated on in a Financial Management and Control Implementation Methodological Framework, which shall be annexed to this Rulebook and make its integral part.
- (2) The budget users shall carry out the activities, procedures and methods contained in the Financial Management and Control Implementation Methodological Framework in keeping with laws and bylaws providing for individual fields of budget users' operations, as well as with the directives and guidelines of the Central Harmonisation Unit of the Ministry of Finance.

Article 6

- (1) Budget users shall undertake to plan for the activities concerning financial management and control establishment and development.
- (2) Central state administration bodies, state extra-budgetary users, counties, county centres, the City of Zagreb and large cities with more than 35,000 population shall plan for their activities relative to the financial management and control establishment and development via the adoption of their respective Financial Management and Control Establishment and Development Plans.
- (3) The Financial Management and Control Establishment and Development Plan referred to in paragraph 2 of this Article shall be adopted annually and contain an overview of the activities planned to be undertaken with the view to addressing:
- a) the weaknesses identified during the course of the Annual Financial Management and Control System Report production;
 - b) internal audit findings and recommendations;
 - c) the weaknesses identified during the course of the Fiscal Responsibility Statement production;
 - d) the State Audit Office findings and recommendations; and
 - e) other measures envisaged for further development of financial management and control.

A report on previous year's activities implementation shall constitute an integral part of the Financial Management and Control Establishment and Development Plan.

- (4) The Central Harmonisation Unit of the Ministry of Finance shall prepare guidelines for the production and adoption of the Financial Management and Control Establishment and Development Plan.
- (5) The Financial Management and Control Head shall prepare the Financial Management and Control Establishment and Development Plan in conjunction with heads of internal organisational units, and the budget user heads shall endorse the plan.
- (6) Budget users referred to in paragraph 2 of this Article shall supply the Central Harmonisation Unit of the Ministry of Finance with the current year's Financial Management and Control Establishment and Development Plan until 31 March of the current year.
- (7) The budget users not stated under paragraph 2 of this Article shall plan for their activities relative to the financial management and control establishment and development via the adoption of their Weaknesses and Irregularities Removal Plan annexed to the Fiscal Responsibility Statement in pursuance of the Decree on the Fiscal Responsibility Statement and the Fiscal Rules Application Report Production and Submission.

III. FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION COORDINATION

Article 7

(1) An organisational unit in charge of budget and finance shall be competent for coordinating the activities relative to financial management and control at budget user level.

(2) The budget user head shall appoint a person in charge of budget and finance the Financial Management and Control Head.

(3) Taking account of the needs and specificities of a budget user's operations, the budget user head may appoint a financial management and control coordinator and/or establish a financial management and control unit as operational support to the financial management and control head to coordinate the activities relative to financial management and control. If a financial management and control coordinator shall be appointed and/or a financial management and control unit established, it shall be necessary to make sure they are appointed and/or established, as a rule, within the organisational unit in charge of budget and finance.

(4) By way of derogation from the provisions contained in paragraph 2 of this Article, in instances when the organisational unit in charge of budget of finance shall be a part of another organisational unit, the budget user head may appoint the head of such a superior organisational unit the financial management and control head, providing that the person in charge of budget and finance shall be appointed a financial management and control coordinator.

(5) Budget users referred to in Article 6, paragraph 7 of the Rulebook with no budget and finance units in place shall not be obliged to appoint a financial management and control head, i.e. the budget user head shall make a decision on the appointment of a financial management and control head and/or coordinator based on his/her own judgment.

Article 8

Coordination of the activities referred to in Article 7 of this Rulebook shall include the following:

- providing advice and support to the budget user head concerning the manner of establishing, implementing and developing financial management and control at budget user level;
- providing advice and support to the heads of internal organisational units concerning the manner of establishing, implementing and developing financial management and control within their respective scopes of competence;
- preparation of and monitoring the implementation of the Financial Management and Control Establishment and Development Plan in adherence to the instructions of the Central Harmonisation Unit of the Ministry of Finance;
- preparation of the Annual Financial Management and Control System Report in adherence to the Annual Public Internal Financial Control System Report Production Instruction;
- coordination of the production of internal regulations on budget cycle (rulebooks, instructions, directives, guidelines) aiming at elaborating on procedures, defining authorities and the responsibilities of all participants and providing for control activities in the planning, programming, financial plan production and execution, public procurement and contracting processes;
- cooperation with the Central Harmonisation Unit of the Ministry of Finance.

Article 9

The first-level state budget users and the local and regional self-government units shall be obliged to cooperate and coordinate the development of financial management and control with the budget and extra-budgetary users falling under their respective structures concerning:

- financial management and control implementation monitoring with budget and extra-budgetary users falling under their respective structures;
- giving directives and guidelines to the budget and extra-budgetary users falling under their respective structures in keeping with the guidance of the Central Harmonisation Unit of the Ministry of Finance;
- coordination of the production of internal regulations on budget cycles providing for the relations with the budget and extra-budgetary users falling under their respective structures.

IV. FINANCIAL MANAGEMENT AND CONTROL SYSTEM REPORTING AND FINANCIAL MANAGEMENT AND CONTROL QUALITY ASSURANCE

Article 10

(1) The budget users referred to in Article 6, paragraph 2 of this Rulebook shall undertake to produce their respective Annual Financial Management and Control System Reports.

(2) The Annual Financial Management and Control System Report shall be supplied to the Central Harmonisation Unit of the Ministry of Finance.

(3) The form and contents of, as well as the procedures and deadlines for the submission of the Annual Financial Management and Control System Report shall be set forth in the Annual Public Internal Financial Control System Report Production Instruction.

Article 11

The budget users not obliged to produce their Annual Financial Management and Control System Reports shall report on the functioning of the financial management and control system via the submission of their Fiscal Responsibility Statements in adherence to the Decree on the Fiscal Responsibility Statement and the Fiscal Rules Application Report Production and Submission.

Article 12

(1) The Central Harmonisation Unit of the Ministry of Finance shall perform financial management and control quality assurance with the view to monitoring the implementation and collecting information for the improvement of work methodology and standards.

(2) Quality assurance shall be conducted through regular annual and periodical reviews of financial management and control. The regular annual quality assurance shall be conducted on the basis of the annual budget users' financial management and control reports. The periodical financial management and control quality assurance shall be conducted by the staff of the Central Harmonisation Unit of the Ministry of Finance by monitoring the implementation of the activities planned for the establishment and development of Financial Management and Control.

V. TRANSITIONAL AND FINAL PROVISIONS

Article 13

The Central Harmonisation Unit of the Ministry of Finance shall adopt the Financial Management and Control Establishment Plan Production Guide within 60 days from the date of this Rulebook's entry into force.

Article 14

With the date of this Rulebook's entry into force, the Public Financial Management and Control Implementation Rulebook shall discontinue (*Narodne novine* No. 35/08).

Article 15

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

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MINISTER OF FINANCE

Martina Dalić, M.Sc.

ANNEX

FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION METHODOLOGICAL FRAMEWORK

The Financial Management and Control Implementation Methodological Framework shall contain an elaboration on the financial management and control components referred to in Article 5 of this Rulebook with an overview of the activities, the methods and procedures covered by financial management and control implementation.

I. Control Environment

(a) Personal and professional integrity and ethical values of staff

Covering

- activities related to the identification of and respect for ethical values and rules of conduct of staff;
- procedures for making staff familiar with ethical values and rules of conduct;
- procedures ensuring the avoidance of potential conflicts of interest;
- procedures on the detected and reported cases of unethical conduct.

(b) Management and management style

Covering

- manners in which management of a budget user manages, governs and oversees the and the attitude it has concerning systems of internal financial controls;
- manners in which top management discusses the objectives and risks, work plans, budget/financial plan, the achievement of the objectives set, the discrepancies between the achievement of the objectives set and the expected results and the measures for remedying the discrepancies detected;
- communication between management and staff by making staff aware of the objectives and understand the way in which the organisational unit's objectives fit into budget user's objectives, while management has feedback on the achievement of the objectives set, possible difficulties, the risks and opportunities for improving the operations.

(c) Definition of mission, vision and objectives

Covering

- activities related to the definition of mission and vision;
- activities related to the setting of strategic objectives and manners for their achievement and the identification of performance indicators;
- manners for linking the strategic planning documents and programmes with the operational plans (e.g. annual work plans, procurement, plans, recruitment plans, investment plans, maintenance plans, equipping plans and other documents) in order to make the day-to-day operations supportive of the achievement of the set objectives;

- manners for linking the strategic and operational planning documents with the financial plan, in order to take account of the financial constraints and all possible sources of funding in the objectives setting exercise, and to monitor the operational and financial effects during the course of implementation.

(d) Organisational structure, including the assignment of authorities and responsibilities and ensuring an adequate reporting line

Covering

- activities relative to the organisational structure establishment and update by making it supportive of the execution of budget user's core functions and the achievement of operating goals set;
- manner in which authorities and responsibilities for the implementation of core operating functions have been arranged within the organisational structure;
- manner in which authorities and responsibilities have been arranged within the organisational structure for the achievement of objectives and for managing budget resources assigned to organisational units for the purpose of implementing the programmes, projects and activities falling under their respective scopes of competence, on the basis of internal organisational enactments and the organisational and programme classifications of the financial plan or budget;
- manner of establishing adequate reporting lines for the needs of supervision, monitoring the achievement of the set objectives and the results.

(e) Human resource management practice and staff competency

Covering

- activities related to the identification of knowledge and skills needed for each job position;
- activities related to planning the staff number, recruitment, training and staff appraisal;
- activities related to the development of skills of staff needed for efficiency gains;
- development of training plans and keeping training registers.

II. Risk Management

Covering

Activities related to the development of risk management as an integral part of the management process, i.e. planning and decision-making, including:

- identification of risks against the objectives included in the strategic and operational plans, programmes, projects, activities and business processes;
- assessing the likelihood of risks materialising and their impact;
- identifying the way of addressing the unacceptable risks;
- documenting risk-related data in risk registers;
- reporting on the most significant risks and risk management activities;
- the risk management strategy adoption.

III. Control Activities

Covering

- written rules, including internal procedures (rulebooks, instructions, directives, guidelines) elaborating on the procedures, defining authorities and responsibilities of all participants and providing for control procedures, especially in processes relative to strategic planning, financial plan production and execution, procurement and contracting, business event and transaction recording, asset management (tangible and intangible), own revenue collection, recovery of unduly spent or wrongly disbursed budget funds;
- procedures and other measures established for the purpose of achieving budget user's objectives through the mitigation of risk to an acceptable level, including:
 - authorisation procedures undertaken subsequent to execution of preventive and detective controls to make sure certain transactions and business events are being executed only after the performance of controls (checking legality and regularity of a proposed transaction, budget funds availability, cost-effectiveness, etc.) and authorisation granted by persons with relevant scope of authority;
 - recording and authorisation of exceptions to make sure that overruns and discrepancies vs. the procedures due to extraordinary circumstances be documented, substantiated and approved at an adequate level before measures are taken;
 - authorities and responsibilities transfer procedure to make sure the authorities and responsibilities have been formally established, clearly defined and assigned to individuals;
 - segregation of duties in the field of granting authorisations for the preparation, processing, recording and payments to make sure no single individual may at the same time be responsible for initiating a transaction, approving the transaction, recording the transaction, reconciliation and report review, with the view to diminishing options for one person's making and hiding errors, irregularities and fraud in the performance of his/her duty;
 - double signature system;
 - procedures to ensure safeguarding of assets and information from unauthorised disposal and physical damage;
 - procedures for complete, accurate, regular and prompt recording of all business transactions;
 - giving instructions for work and adequate staff training in order to ensure understanding and taking course of action in keeping with the procedures used by a budget user, aimed at reducing the rate of errors, irregularities, extravagance and fraud;
 - procedures for supervising staff work to ensure that work is being conducted in accordance with the plans and effective procedures;
 - procedures for monitoring control procedures to make sure controls are being conducted as planned and that they get modified in accordance with the changes to and circumstances in the environment, that internal control weaknesses get recorded, i.e. those conditions which distort budget users' capacity to perform the core budget user functions and achieve the set operational objectives, as well as for remedying the weaknesses;
 - rules on documenting all controls, financial decisions, exceptions to rules, transactions, recording and actions related to the activities of a budget user;
 - adequate supervision mechanisms, including ex-post control via transaction sampling to ensure the procedures put in place by the budget user head are being implemented efficiently.

The procedures and measures referred to above are being established in the business processes and transactions as:

- ex-ante controls directed to ensure the legality and regularity of financial and other decisions prior to making financial decisions, i.e. prior to making a decision on spending budget funds and during the course of implementing financial and other decisions, ending with the payment stage;
- ex-post controls directed to ensure legal, purposeful and timely collection and spending of budgetary funds, achievement of the expected results and detection of potential errors, discrepancies and irregularities.

IV. Information and Communication

Covering

- activities related to the establishment and development of an information and communication system to ensure timely, accurate and complete information for the needs of financial management and an efficient communication within the organisational structure;
- modes of information exchange between various organisational units for the needs of budget planning and execution, programme and project implementation, monitoring the results achieved against the plans, exchange of information on weaknesses or irregularities detected;
- modes of communication and information exchange between budget users of the first and second levels of organisational classification and between local and regional self-government units and their budget and extra-budgetary users;
- activities related to the development of accounting systems and other recording systems and databases with the view to ensuring timely, accurate and complete information on costs incurred, revenues, assets, liabilities, including the commitments created and contracted, performance indicators, objectives, risks and other financial and non-financial information depending on the needs and specificities of the given budget user;
- activities related to documenting key business processes, i.e. processes of planning, programming, financial plan production and execution, procurement and contracting processes either through the production of a book/map of business processes, production of internal regulations, computerisation or through other means a budget user may deem adequate;
- document filing procedures;
- procedures relative to the development of a reporting system, including a defined managerial level to which the reports shall be submitted, report deadlines, contents and structure, as well as other issues deemed necessary to be arranged in order to ensure timely dissemination of financial and other information among various levels of an organisation;
- public information activities.

V. Monitoring and assessment of the financial management and control system

Covering

- ongoing monitoring activities during the course of operations, encompassing usual managerial and supervision activities, as well other actions the staff are taking during the course of performing their duties;
- self-assessment procedure conducted at least once a year on the grounds of the Financial Management and Control System Self-Assessment Questionnaire, in accordance with the Annual Public Internal Financial Control System Report Production Instruction;
- procedure for monitoring and assessing the financial management and control system for the needs of producing the Fiscal Responsibility Statement the budget users shall perform in adherence to the Decree on the Fiscal Responsibility Statement and the Fiscal Rules Application Report Production and Submission;
- internal audit activities aimed at reviewing the financial management and control system and making recommendations for improvement of the operations.