

Pursuant to Article 37, paragraph 1, item d) of the Public Internal Financial Control Law (Official Gazette *Narodne novine* 141/06), the Minister of Finance shall hereby pass the

RULEBOOK ON USER OF BUDGET INTERNAL AUDIT

I. GENERAL PROVISIONS

Article 1

This Rulebook shall specifically provide for criteria for the establishment of Internal Audit with users of budget, the organisational position of an Internal Audit Unit and the position of an appointed internal auditor in a Local and Regional Self-Government Unit, and the quality assurance of internal audit performance with Users of Budget.

II. CRITERIA FOR THE ESTABLISHMENT OF INTERNAL AUDIT WITH USERS OF BUDGET

Establishment of Internal Audit through Setting up an Independent Internal Audit Unit Directly Reporting to the User of Budget Head

Article 2

In keeping with the provision contained in the Public Internal Financial Control Law (*Narodne novine* 141/06; hereinafter the Law) and in this Rulebook, all ministries, central state offices, extra-budgetary institutes, counties, the City of Zagreb, county centres and cities with population greater than 35,000 shall be obliged to establish their respective independent Internal Audit Units.

Article 3

(1) In addition to the users of budget referred to in Article 2 of this Rulebook, the entities falling under criteria listed hereunder shall be under obligation to establish internal audit as independent Internal Audit Units directly reporting to the User of Budget Head:

- Users of Budget which employ more than 50 staff and have their annual expenses and expenditure in excess of HRK 30,000,000.00 or
- Users of Budget whose field of operation was deemed highly risky and the performance of their tasks specific, in which case the Minister of Finance may

make a decision on the obligation of establishing respective units notwithstanding the users' exclusion from some of the criteria referred to in Article 3, paragraph 1, item 1 of this Rulebook.

(2) Expenses and expenditure referred to in paragraph 1 of this Article shall pertain to national funds and funds from all other sources.

Article 4

The Users of Budget under obligation of establishing an independent Internal Audit Unit as per the criteria set forth in Article 2 and Article 3, paragraph 1 may exceptionally, as they judge fit and justified, establish internal audit as prescribed in Article 17, paragraph 1, item b) or item c) of the Law.

Article 5

The Users of Budget which shall not be under obligation of establishing an independent Internal Audit Unit as per the criteria set forth in Article 3 of this Rulebook may, as they judge fit and justified, establish internal audit in one of the manners prescribed in the provisions contained in Article 17 of the Law.

Article 6

The establishment of internal audit in one of the prescribed manners and the number of certified internal auditors shall be provided for by each User of Budget separately through their respective internal arrangements enactments, taking account of the business processes and set objectives, the budgetary and other resources made available to them and the number of employees.

Article 7

(1) The Users of Budget which receive one-off aid from the European Union's pre-accession funds or from other sources shall not be obliged to put an internal audit unit in place, providing they do not meet criteria laid down in Article 3, paragraph 1 of this Rulebook.

(2) Internal audit of the funds referred to in paragraph 1 of this Article shall be carried out by an institution which allocated the funds or an institution serving as a project funding vehicle.

Establishment of a Joint Internal Audit Unit at Proposal of Several Users of Budget, with Prior Consent of the Minister of Finance

Article 8

(1) According to their own judgment or on the basis of a proposal of several Users of Budget, Users of Budget may establish a joint Internal Audit Unit, providing the Minister of Finance shall give his prior consent thereof.

(2) A joint Internal Audit Unit catering for several Users of Budget at central government level shall be established via a decree or another act of the Government of the Republic of Croatia.

(3) A joint Internal Audit Unit catering for several Users of Budget at local level shall be established via an agreement on the establishment between the given Users of Budget, which agreement shall provide for the organisational structure of the Unit, the manner in which the joint unit's head shall be appointed, the funding and other issues relevant for its work, with prior consent given by the Minister of Finance.

Establishment of Internal Audit through an Internal Audit Performance Agreement between a Competent Ministry/Institution and a Local and Regional Self-Government Unit, with Prior Consent of the Minister of Finance

Article 9

(1) According to their own judgment or on the basis of a proposal of several Users of Budget, Users of Budget may establish a joint Internal Audit Unit via an agreement on the performance of internal auditing matters entered into between a competent ministry/institution and a local and regional self-government unit, providing the Minister of Finance shall give his prior consent thereof.

(2) A condition for the establishment of internal audit in the manner set forth in paragraph 1 of this Article shall be that one of the Users of Budget entering into the agreement has already put a unit in place or appointed an internal auditor.

Article 10

Should internal audit be established in the manner set forth in the provisions contained in Articles 8 or 9 of this Rulebook, the Internal Audit Unit Head, i.e. the appointed internal auditor shall in addition to the performance of matters prescribed by the Law be obliged to also perform matters prescribed by an agreement on the establishment of a joint Internal Audit Unit or an agreement on the performance of internal audit.

III. ORGANISATIONAL POSITION OF AN INTERNAL AUDIT UNIT AND THE POSITION OF AN APPOINTED INTERNAL AUDITOR IN A LOCAL AND REGIONAL SELF-GOVERNMENT UNIT

Article 11

(1) An Internal Audit Unit in a local and regional self-government unit shall be established as a separate service at the highest organisational level, organisationally and functionally independent of other administrative bodies, directly and solely reporting to the User of Budget Head.

(2) The Unit referred to in paragraph 1 of this Article shall be established for the performance of auditing matters as prescribed by the Law and shall not be associated with the performance of other matters falling under the scope of the local and regional self-government unit.

(3) An appointed internal auditor in a local and regional self-government unit shall as a matter of rule be assigned to a separate position directly linked with the User of Budget Head either in an administrative department or a service of the User of Budget, which shall functionally report solely to the User of Budget Head.

Article 12

An Internal Audit Unit Head, i.e. an appointed internal auditor in a local and regional self-government unit shall be appointed by the Head of the local and regional self-government unit.

IV. QUALITY ASSURANCE OF INTERNAL AUDIT PERFORMANCE WITH USERS OF BUDGET

Article 13

(1) An Internal Audit Unit Head shall develop the overall Quality Assurance and Improvement Program for the internal audit performance (hereinafter: Quality Assurance Program) on the basis of a template produced by the Central Harmonisation Unit of the Ministry of Finance.

(2) The Quality Assurance Program shall define quality assurance engagements as internal and external.

Article 14

(1) An internal quality assurance shall consist of continuous and occasional assessments.

(2) A continuous assessment, i.e. monitoring of internal audit work and results shall be carried out by the Internal Audit Unit Head, and occasional assessments shall be performed via self-assessments.

Article 15

(1) External quality assurance of internal audit performance with Users of Budget shall be carried out by the Ministry of Finance's Central Harmonisation Unit and external audit.

(2) The Central Harmonisation Unit of the Ministry of Finance shall perform quality assurance through regular annual and occasional quality assurance exercises.

Article 16

(1) Regular annual quality assurance shall be performed on the basis of Users of Budget annual reports on the performed internal audits and internal audit activities for the previous year.

(2) The occasional quality assurance activities shall be performed jointly by the Central Harmonisation Unit and certified internal auditors from other Users of Budget proposed by the Ministry of Finance's Central Harmonisation Unit.

(3) The occasional quality assurance activities shall be performed at least once every five years upon the request of internal audit of a User of Budget.

(4) The occasional quality assurance shall be performed with the User of Budget through occasional review of the overall performance of internal audit activities.

(5) The Internal Audit Unit Head shall report on the results of external quality assurance to the User of Budget Head. Internal audit shall be obliged to proceed upon the external audit recommendations in case of non-compliance with the international auditing standards, laws or other regulations providing for internal audit in the Republic of Croatia.

VII. TRANSITIONAL AND FINAL PROVISIONS

Article 17

With the effective date of this Rulebook, the Budget Users' Internal Audit Rulebook (*Narodne novine* 150/05) shall discontinue.

Article 18

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

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MINISTER OF FINANCE

Ivan Šuker