Republic of Croatia
Ministry of Finance

The State Treasury

Phare 2006 Project " Developing Public Internal Financial Control in the State Treasury"

Risk Management Guidelines

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PRELIMINARY REMARKS

❑ Definition of risk management strategy

The purpose of this document is to outline an overall approach to risk management that addresses the risks facing the State Treasury in pursuing its strategy and will facilitate the effective recognition and management of such risks.

Risk management strategy defines how risks must be managed during the State Treasury activities cycles.

There are two parts to the strategy

1. Analysis of risk, which involves the identification and definition of risks, plus the evaluation of impact and consequent action.
2. Risk management, which covers the activities involved in the planning, monitoring and controlling of actions that will address the problems and weaknesses identified, so as to improve the likelihood of the State Treasury achieving its goals.

The risk analysis (or risk assessment) and risk management phases must be treated separately, to ensure that decisions are made objectively and based on all relevant information.

Risk analysis and risk management are interrelated and undertaken iteratively. The formal recording of information is an important element of risk analysis and risk management. The documentation provides the foundation that supports the overall management of risks.

Internal and external auditors provide varying degrees of assurance about the state of effectiveness of the risk management and control processes of the State Treasury. Both State Treasury managers and auditors have an interest in using techniques and tools that sharpen the focus and expand the efforts to assess risk management and control processes that are in place and to identify ways to improve their effectiveness.

Objectives of the risk management strategy

1. To develop a risk map which will identify and rank all significant risks facing the State Treasury and so assist achievement of the State Treasury strategy through pro-active risk management.
2. To rank all risks in terms of likelihood of occurrence and expected impact upon the State Treasury.
3. To allocate clear roles, responsibilities and accountabilities for risk management.
4. To enable the State Financial Statements to include a summary of the process applied to reviewing the effectiveness of the internal control system.
5. To raise awareness of the principles and benefits involved in the risk management process and to obtain staff commitment to the principles of risk control.

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I. INTRODUCTION

Risk Management guidelines of State Treasury is intended to provide practical and theoretically sound advice and recommendations to staff and management of the State Treasury on how to implement the principles and key elements of the risk management methodology.

To do so, the Risk Management guidelines present a relevant methodology for carrying out risk assessment within each State Treasury activity. The risk management methodology connected with organisational activities is brought out and elaborated, covering issues from risk identification, as well as assessment of an impact and likelihood of occurrence of the risk event. Attention is paid to the matter that risk assessment can be successful only where it is followed by risk mitigation activities. In order to achieve that, the everyday work of all State Treasury units has to be integrated with activities that help to reinforce regular monitoring of identified risks and the application of suitable measures for risk mitigation.

Risk Management guidelines sets out principles, concepts, recommendations and guidance for the specific risk management approach. In risk management, risk managers assess in a systematic and structured way, the weaknesses of the system and suggest some possible improvements to enhance the possibility of successful accomplishment of their tasks.

The application of a structured methodology makes possible to assemble the results of risk assessment of different directorates that participate in the State Treasury structure for budgetary operations. The most important risks brought out by State Treasury units generate these risk management activities.

II. RISK MANAGEMENT - KEY PRINCIPLES

II.1. Definition

Risk can be defined as "Any event or issue that could occur and adversely impact the achievement of the State Treasury political, strategic and operational objectives. Lost opportunities are also considered as risk".

Risk can also be defined as a possible threat, an event (or complex of events), activity (or complex of activities) or inactivity that may cause loss of assets or reputation and threaten successful fulfilment of tasks set to the organisation.

Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

As a consequence, the essential purpose of risk management is to improve organisation performance via systematic identification, appraisal, management and control of projects and system risks and risk events and situations that can have adverse effects for achievements of the organisation objectives.

II.2. State Treasury risk management objectives

The goal of risk management activity is to bring the risks of the State Treasury to an acceptable level by carrying out measures that would mitigate the likelihood of risk occurrence, impact of risk realisation or both at the same time. In order to do this, one must first acknowledge that risks are a natural part of everyday activities and cannot be avoided, but can only be managed.

That means that certain level of "risk acceptance" should be pondered for each particular case in analysis. Risk acceptance is a degree of risk that the management is willing to accept in the pursuit of its objectives. Analysis of risks with defined level of risk acceptance may provide reasonable assurance that the objectives of the State Treasury will be achieved. However, even a well-designed and operated risk management cannot guarantee that all objectives will be fully achieved.

The resources are always limited and it makes no sense to talk about total risk elimination or total risk prevention, but only about risk mitigation to the level accepted by the management. Risk assessment is the second component of the COSO model.

In accordance with the COSO definitions, the main objectives of risk management activity for the State Treasury should be the following ones:

- To ensure functioning of the State Treasury structure as a whole;
- To ensure the achievement of the objectives for each State Treasury body on its particular level and in according to its functions;
- To protect State financial interests against fraud, waste, legal violations and errors;
- To protect the State resources;
- To ensure the accuracy and timeliness of information and its availability to the persons/authorities concerned;
- To ensure that adequate operating procedures are in place to manage crisis situations.

In order to achieve the above-mentioned objectives, all State Treasury departments have to understand and support the concept and methods of risk management process. This methodology needs to be developed and spread throughout the State Treasury from the top management level till the operational staff. The risk management has to be implemented as a comprehensive, workable structure and set of practical tools for preventing risks which might negatively affect efficiency of the State Treasury operations. This requires bringing together the practices of all relevant activities and the harmonisation of the results of risk identification / assessment in order to manage them rationally, successfully, and cost effectively.

II.3. Risk management typology

The following general risk typology can be used for general risk classification by both management and the State Treasury internal audit services when relevant. Typology has three purposes:

- Creating a common language to facilitate communication in the domain of risk management;
- Providing a tool that can be used in the risk identification to help management make sure that all risk aspects and potential risks have been considered;
- Analysing, consolidating and reporting risks.

Eight categories of risks have been identified in the context of the State Treasury activities:

- **Strategic Risk:** these concern the long-term strategic objectives of the organisation (ex: lack of monitoring policy/ unclear strategies or objectives / unrealistic or overestimated objectives/ absence of agreed objectives and performance targets...);
- **Operational Risk:** these concern the day-to-day issues that the organisation is confronted with, as its strives to deliver its strategic objectives (ex: no reliable IT system, complexity of rules, complex operation [when the operation is complicated and diverse with a large number of actors involved], lack of guidance, external information/data are not received in due time…);
- **Organisational Risk:** (ex: lack of identified substitute, insufficient supervision arrangement/ insufficient or inappropriate delegation of tasks/ inappropriate segregation of duties…);
- **Compliance Risk:** these concern such issues as data protection, no effective regulation, lack of adequate legal instruments, contradictory operational procedures, complex rules increasing the risk of misinterpretation or error in their application, acceptance of non-eligible claims caused by unclear rules and regulations…;
- **Performance Risk:** (ex: no goal monitoring system);

- **Financial Risk:** these concern the effective management and control of the finances of organisations such as fraud or irregularity, and the effect of external factors such as foreign exchange rate;
- **Image / Reputation Risk:** (ex: negative external assessment);
- **Other Risk:** unclassified.

Moreover, the categories of risks identified above can be crossed with the three types of theoretical risks below:

- **Inherent risk**: the risk linked to the nature of the activities themselves (ex: lack of guidance, complexity of activities, lack of documentation, large number of actors involved in the procedure, lack of traceability of the activity…).
- **Control risk:** the risk that errors or irregularities in the activities or underlying transactions (tasks) are not prevented, detected and corrected by the internal control systems either at the desk or on the spot (internal control or internal audit). (Ex: lack of segregation of duties, lack of supervision, relative inexperience staff, inadequate staffing relative to workload, control strategy does not take sufficient account of risks, or "misses" a key risk area…).
- **Residual risk:** the risk remaining after the controls put in place to mitigate the inherent risk.

III. IMPLEMENTING RISK MANAGEMENT IN THE STATE TREASURY STRUCTURE VIA THE SEVEN KEY STEPS

Risk Management is an ongoing process that includes the different activities like identifying, assessing, prioritising risks, implementation and review of mitigating or corrective actions as well as in advance planning and control. Conceptually, seven steps of the general risk management model are intended to provide a common risk management approach:

- **Step 1 - Describing business processes and activities in the Book of processes**
- **Step 2 - Identification of activities and objectives**
- **Step 3 - Inherent risk assessment for each activity**
- **Step 4 - Internal control system assessment**
- **Step 5 - Selection of risk response for residual risks**
- **Step 6 - Implementation of risk response: action plan**
- **Step 7 - Monitoring and reporting**

III.1. STEP 1: Describing business processes and activities in the Book of processes

The production of a processes register (mapping) and the production of a book of processes ensures uniformity in the running of business processes, identification of activities carried out, responsibilities for carrying out an activity as well as the deadline within which they should be executed. It should be coupled with an overview of controls identified within the process ensuring the achievement of the process objective.

Business processes are a set of interrelated actions directed towards the achievement of business objectives. The listing of processes running in the State Treasury is the primary objective of the risk assessment strategy.

Mapping of processes includes listing and describing all business processes of the State Treasury. Mapping of all business processes results in gaining an overall picture on the manner in which the State Treasury achieves its business objectives. It gives an overall description of the organisation and its activities and shows whether or not there are weaknesses concerning the process definition. The Book of Processes gives an overview of interrelation between the processes as well as of the opportunities for possible improvements in the State Treasury organisation.

See Annex No 1: "Summary of the Book of processes".

III.1.1. Flow charts and audit trails:

Each business process is represented by a **global flow chart** (overview of the business process as a whole). Flowcharting can provide a concise overview of the process and aids in identifying inadequacies by facilitating a clear understanding of how the process operates.
Then, within each process, the main activities are described in some **detailed flow charts** and identified in some related **audit trail**.

The audit trail is a management tool used for tracing a process, from start to end, and across the different actors involved in the running of the process or activity.
Additionally, the audit trail provides for reconstituting all individual transactions and operations implemented in a particular process.

The design and preparation of audit trail is based on process analysis aiming at describing and charting flows of activities with clear identification of the operations that are executed, organisational departments involved in the activities along with other bodies (FINA, budget users,….), resources used and results obtained.

The audit trail provides management with a clear vision of:

- Process/ activities of the process/ tasks of the activities,

- Objectives of the process /activities/ tasks,

- Department staff concerned (who does what in the activity),
- Inputs used for each task and the expected outputs,
- Legal, financial and other documents governing and supporting the activities under the processes and the database that support the activity.
- Filing rules at each step of the activity.

The audit trail is up-dated on a regular basis with a view to ensure it reflects the current state of affairs of the user of budget's processes. The information necessary for preparing or updating flow charts is usually obtained by interviewing personnel at each "assessable unit" about procedures followed, and by reviewing procedure manuals, existing flow charts and other system documentation. Sample documents are collected and each unit involved.
Staff is questioned about their specific duties. Inquiries can be made concurrently with the performance of transaction reviews, particularly when flow charts are being updated.

☞ The purpose of developing those items (flow charts and audit trails of the business processes) is to acquire a comprehensive view of the organisation and thus to identify all potential threats (risks) in the State Treasury processes.
These tools (flow charts and audit trails for all business processes) are compiled in the whole State Treasury Book of processes.

III.2. STEP 2: Identification of activities objectives

Each Directorate involved in the missions of the State Treasury has some specific role and objectives that need to be fulfilled in order to guarantee sound financial management, and to give a fair view of the State accounting.

The identified objectives of the activities must be in line with COSO aims:
- Guaranteeing the quality of financial records,
- Safeguarding State assets,

- Ensuring compliance with the regulations

- Making the State Treasury more effective.

The objective of any process is what one must achieve through the activities or actions of the process. The objectives of the processes are identified in the Book of process and in the risk assessment form for each activity.

Furthermore, the risk management strategy implies filling an assessment form with the activity identification and the kind of activity concerned:

- **Monitoring** having an effective regulation, an efficient strategy planning….
- **Business**: preparing, executing, supervising budget activities and accounting operations in accordance with the regulation…
- **Support function activities**: using a reliable IT system and adequate human resources….

The activity goal has to be described in the Risk assessment Form according to the purpose of the activity that has been identified in the previous step (documentation of processes and activities). The methodology is "**one risk, one form"**. Thus, the assessor must fill out as many forms as the number of risks he has listed in the activity. Then these forms would have the same "**activity's goa**l" description for all the different risks.

The "**Process owner**" is the person responsible for carrying out the process (usually the Head of Department). Only one person can be a process owner. This person determines the manner in which the process is to be executed and is authorised to make changes to the process. The process owner is nominated in the audit trails and in the risk assessment form. It is recommended to put a job position here (function) rather than just the name of the person, to avoid changing data when the person responsible for the given process leaves the Department. This requires a continuous updating of the book of processes.

See Annex N°2: "Risk assessment form template".

III.3. STEP 3: Inherent risk assessment for each activity

Any risk identification should be based on accurate knowledge of the processes and activities of the State Treasury, and on the environment in which it operates.
At the beginning of risk identification it is necessary to standardise the knowledge concerning risk assessment of the Risk Managers and the member of State Treasury in charge of filling risk assessment forms.

Risk assessment is about identifying and assessing issues or events that affect the State Treasury activities and impact achievement of the defined objectives.

III.3.1. Identification of inherent risk:

Inherent risk may be defined as the potential for non-achievement of the organisation's mission, objectives and goals; waste, inefficiency or ineffectiveness; loss, unauthorised use or misappropriation of assets; non compliance with laws, regulations, policies, procedures and guidelines; or the inaccurate recording, preservation, and reporting of financial and other key data.

This analysis should be performed without regard to controls that are in place to counteract those risks.

The factors to be considered in analysing the inherent risks are among the following:

- Purpose and characteristics of the activity;
- Budget and resource level;
- Procurement of goods or services;
- Impact outside of the State Treasury;

Both managerial and operational staff should notify potential threats regarding their functions by submitting risk assessment forms to the Risk Manager of the Directorate for approval. At this stage of the process, the person filing the risk assessment form should give a preliminary assessment of the risk, based on two indicators:

- The **likelihood** of the identified risks to occur (likelihood implies the frequency of an event's occurrence),
- The **impact of the risk**, i.e. the effect or consequences arising from the occurrence of the risk (impact implies consequences caused by the occurrence of an event).

The assessment process is an opinion based on the expertise and experience of the risk assessor and on the level of information available. The inherent risks are described in the Book of process (main risk) and in the risk assessment forms of the activities, which are gathered in the risk mapping.

III.3.2. Risk impact assessment:

The impact assessment should be considered regarding financial stakes and foreseeable consequences on the process or organisation.

Assessment	Interpretation
Minor	If the risk occurs, business process and planned activities are not disrupted (or are lightly impacted). Examples: Schedule delays to minor projects/services Loss of assets (low value) Unfavourable media attention
Moderate	If the risk occurs, the activities are significantly disrupted. Examples: Disruption of some essential programs/services Loss of assets Some loss of public trust Negative media attention
Severe	If the risk occurs, the activities are heavily disrupted. Examples: Disruption of all essential programs/services Loss of major assets Significant loss of public trust Public outcry for removal of Minister and/or departmental official

The assessor must determine the potential impact of the risk (**minor/ moderate/ severe**) and justify his/her choice in the assessment form.

III.3.3. Risk likelihood assessment:

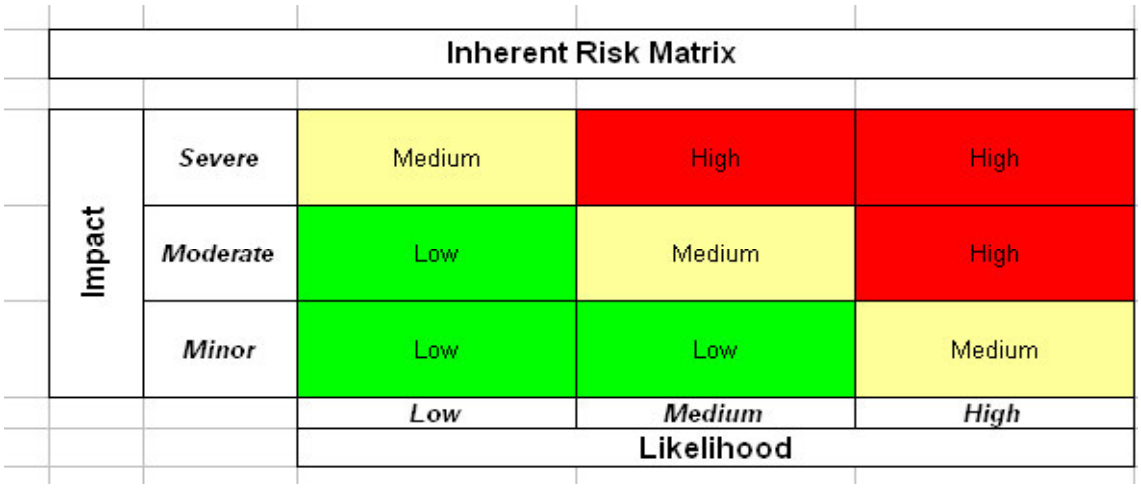
The risk likelihood is the possibility that a certain risk appears in an observed business process.

Assessment	Interpretation
Low	The risk occurrence is unlikely or there is some knowledge of the occurred situation.
Medium	The event should occur sometimes. Previous evidence or knowledge of the occurred situation supports the likelihood of risk occurrence.
High	The event is expected to occur in most circumstances. Clear and frequent evidence or knowledge of the occurred situation supports the likelihood of risk occurrence.

For each risk, the assessor must determine the level of risk likelihood (**low/ medium/ high**). The chosen level of the risk likelihood must be briefly justified in the assessment form.

While bringing out risks, it has to be taken into account that a risk identification should not be too general (so that no certain risk mitigation measures can be found) or too detailed (bringing out all possible risk situations, scenarios and risk mitigation measures would be too time-consuming and does not focus on the most important objectives of the organisation. Risk has to be identified and recognised as a realistic possibility by the majority of assessors.

The crossing between the risk likelihood assessment and the risk impact assessment is modelled in the **inherent risk matrix**:



See Annex No 3: "Model of risk mapping".

III.4. STEP 4: Internal control system assessment

III.4.1. Criteria of control activities:

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

In order to be effective, control activities must be:

- **Adequate** (right control in the right place and commensurate to the risk involved);
- **Cost-effective** (the costs of implementing a control should not exceed its benefits);
- **Comprehensive**, understandable and directly related to the control objectives;
- **Consistent** with their operation in line with the Internal Control plan for a period.

III.4.2. Categories of internal control activities:

Types of controls can be categorised as follows:

- **Directive control activities** are designed to guide an organisation toward its desired outcome. Most directive control activities take the form of laws, regulations, guidelines, policies and written procedures.
- **Preventive control activities** are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing ways to avoid them.
- **Detective control activities** are designed to identify undesirable events that do occur, and alert management about what has happened. This enables management to take corrective action promptly.
- **Corrective control activities** are processes that keep the focus on undesirable conditions until they are corrected. They may also help in setting up procedures to prevent recurrence of the undesirable condition.

There is no one-control activity that provides all of the answers to risk management problems. In some situations, a combination of control activities should be used, and in others, one control activity could substitute for another.

The concepts of directive, preventive, detective and corrective controls, as well as the control activities described above, apply to both manual and computerised processes.

III.4.3. Assessment of the existing / established and expected / needed controls within business processes:

Control activities mitigate processing risks. Control activities are the policies and procedures that help ensure that management directive are carried out. They include a range of activities as diverse as approvals, authorisation, verifications, reconciliation, reviews of operating performance, security of assets and segregation of duties.

The different categories of Control Activities are classified in 8 points or factors grouped in 3 main issues: **organisational issues, documentation issues, and traceability issues** as regards each State Treasury activity.

Main Issues of control level	Factors
1. Organisational issues	1.1.The organisation (Who does What?) 1.2.The different level and steps of control 1.3.Assets and supportive document safeguarding general arrangements
2. Documentation issues	2.1.Existing Documentation 2.2.Compliance with existing documentation
3. Traceability issues	3.1.Players identification 3.2.Transactions traceability 3.3.Controls traceability

This analysis is performed with Internal Control questionnaire (around 30 key questions relating to the 3 main issues mentioned above). The methodology used is "one risk, one questionnaire", and the answers to this latter are supported and corroborated with collection of documents, evidences.

The evaluation of the level of Internal Control system implemented is a four-category ranking based upon both the existence and the efficiency of control tools used:

- **No control in place**: means that any kind of control does not exist at all. Therefore, the possible occurrence of the risk in very high.
- **Low**: means that controls exist but are not sufficient (ex: not relevant or not appropriate).

- **Medium**: means that the controls are relevant but are not able to cover the whole field of possible risk.

- **High**: means that the controls in place are relevant and operate effectively.

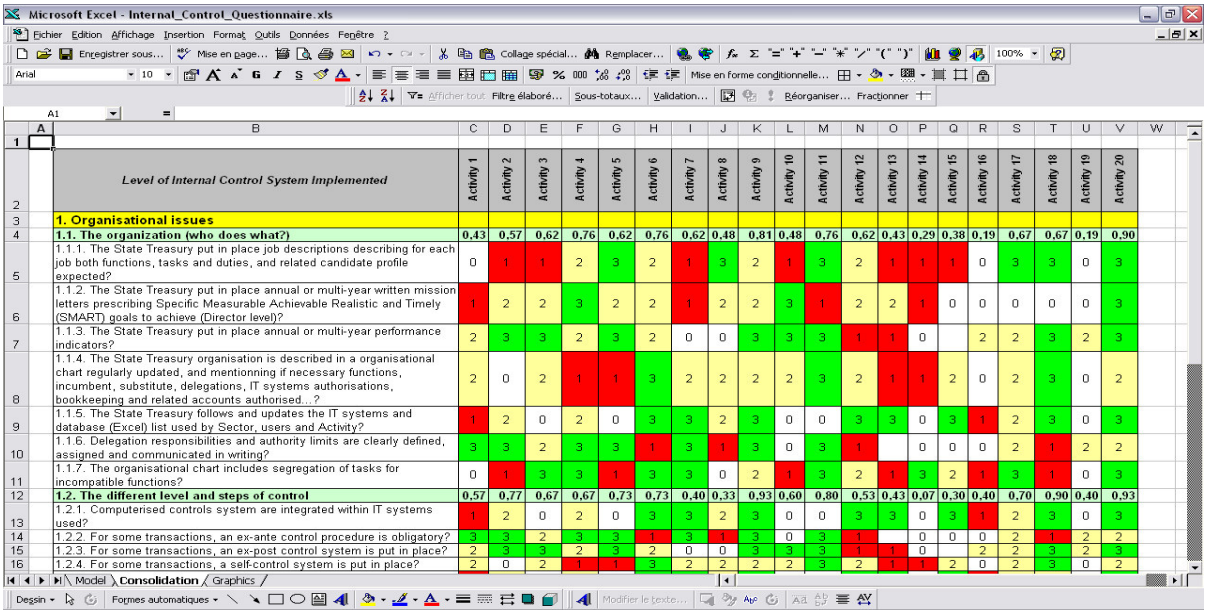
These indicators must be crossed with inherent risk level to obtain the control risk matrix. The scheme below identifies all the different possible combinations.

Control Risk Matrix					
Inherent Risk Level	*High*	Low	Medium	High	High
	Medium	Low	Medium	High	High
	Low	Low	Medium	Medium	High
		High	*Medium*	*Low*	*No control in place*
		Level of Internal Control System Implemented			

See Annex n° 4: "Internal Control assessment questionnaire".

Evaluations of each activity's Internal Control System Implemented level are reported in a consolidated Excel sheet with final ranking combining both colour code and scoring (scale from 0 to 3):

- No Internal Control System in place (0 – Red)
- A low Internal Control System in place (1 - Red)
- A medium Internal Control System in place (2 - Amber)
- A high Internal Control System in place (3 - Green)
- Not applicable (Neutral - Black)



Microsoft Excel - Internal_Control_Questionnaire.xls

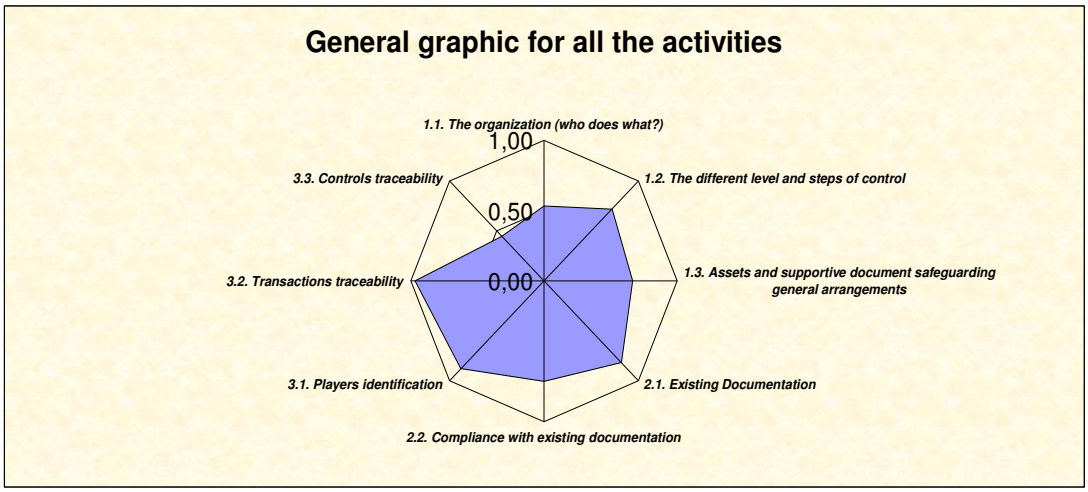
Level of Internal Control System Implemented	Activity 1	Activity 2	Activity 3	Activity 4	Activity 5	Activity 6	Activity 7	Activity 8	Activity 9	Activity 10	Activity 11	Activity 12	Activity 13	Activity 14	Activity 15	Activity 16	Activity 17	Activity 18	Activity 19	Activity 20
1. Organisational issues																				
1.1. The organization (who does what?)	**0,43**	**0,57**	**0,62**	**0,76**	**0,62**	**0,76**	**0,62**	**0,48**	**0,81**	**0,48**	**0,76**	**0,62**	**0,43**	**0,29**	**0,38**	**0,19**	**0,67**	**0,67**	**0,19**	**0,90**
1.1.1. The State Treasury put in place job descriptions describing for each job both functions, tasks and duties, and related candidate profile expected?	0	1	1	2	3	2	1	3	2	1	3	2	1	1	1	0	3	3	0	3
1.1.2. The State Treasury put in place annual or multi-year written mission letters prescribing Specific Measurable Achievable Realistic and Timely (SMART) goals to achieve (Director level)?	1	2	2	3	2	2	1	2	2	3	1	2	2	1	0	0	0	0	0	3
1.1.3. The State Treasury put in place annual or multi-year performance indicators?	2	3	3	2	3	2	0	0	3	3	3	1	1	0		2	2	3	2	3
1.1.4. The State Treasury organisation is described in a organisational chart regularly updated, and mentionning if necessary functions, incumbent, substitute, delegations, IT systems authorisations, bookkeeping and related accounts authorised...?	2	0	2	1	1	3	2	2	2	2	3	2	1	1	2	0	2	3	0	2
1.1.5. The State Treasury follows and updates the IT systems and database (Excel) list used by Sector, users and Activity?	1	2	0	2	0	3	3	2	3	0	0	3	3	0	3	1	2	3	0	3
1.1.6. Delegation responsibilities and authority limits are clearly defined, assigned and communicated in writing?	3	3	2	3	3	1	3	1	3	0	3	1		0	0	0	2	1	2	2
1.1.7. The organisational chart includes segregation of tasks for incompatible functions?	0	1	3	3	1	3	3	0	2	1	3	2	1	3	2	1	3	1	0	3
1.2. The different level and steps of control	**0,57**	**0,77**	**0,67**	**0,67**	**0,73**	**0,73**	**0,40**	**0,33**	**0,93**	**0,60**	**0,80**	**0,53**	**0,43**	**0,07**	**0,30**	**0,40**	**0,70**	**0,90**	**0,40**	**0,93**
1.2.1. Computerised controls system are integrated within IT systems used?	1	2	0	2	0	3	3	2	3	0	0	3	3	0	3	1	2	3	0	3
1.2.2. For some transactions, an ex-ante control procedure is obligatory?	3	3	2	3	3	1	3	1	3	0	3	1		0	0	0	2	1	2	2
1.2.3. For some transactions, an ex-post control system is put in place?	2	3	3	2	3	2	0	0	3	3	3	1	1	0		2	2	3	2	3
1.2.4. For some transactions, a self-control system is put in place?	2	0	2	1	1	3	2	2	2	2	3	2	1	1	2	0	2	3	0	2

The main goal is to identify, for each State Treasury activity concerned both at operational level and at managerial level:

- The main strengths and weaknesses
- The area (s) where Internal Control System must be improved

For each one of the 8 measurement factors, a scoring is automatically done, from 0 (low) to 1 (high) and a graphic representation is generated around these 8 points of controls. This tool can be used indifferently by activity, by issue or for all State Treasury activities.

Example of graphic rating scale and measurement factors for all State Treasury activities



III.5. STEP 5: Selection for risk response for residual risks

The concept of residual risk can be defined as being the risk remaining after the controls put in place in order to mitigate the inherent risk, and can be summarised as follows:
Residual risk = Gross inherent risk – risk mitigated by control procedures.

The 'residual risk' is that remaining once these measures are taken. Residual risk is deduced from inherent risk and control risk. The scheme below gives the risk matrix.

Residual Risk Matrix				
Inherent Risk	*Severe*	Medium	High	High
	Moderate	Low	Medium	High
	Minor	Low	Low	Medium
		Low	*Medium*	*High*
		Control Risk		

III.6. STEP 6: Implementation of risk response: action plan

The risk managers and the risk manager co-ordinator must draw an action plan. There are several possible strategies for mitigating risks and all of these strategies can be used and the risk manager should determine how to manage them. The decision will depend on the significance of the risk and management's risk tolerance and risk attitude (certain risks may be accepted, other not or just to a limited degree). In principle there are four (4) main strategies to use as a risk response:

- **Avoid** –Actions are taken to discontinue or modify the activities / objectives giving rise to risk. Risks can be avoided by changing the scope of the activities, even by changing the regulation;
- **Transfer** – Actions are taken to reduce risk likelihood or impact by transferring to or sharing a portion of the risk with a third part. Risks can be reassigned to third partners best able to control them or (if different) who will carry the risk at lowest cost, e.g. to line ministries or FINA;
- **Reduce** – This is the most common risk response. Actions are taken to reduce the risk likelihood or impact or both. This can be done in various ways, for example enhancing legislation, simplifying operational procedures, increasing control staff or obtain more information through feasibility studies or specific research;
- **Accept** – No action is taken to further reduce the risk. Risk manager estimates that perceived risk level can or has to be accepted or thinks that the cost of reducing the risk is higher than the potential damage.

The impact of the risk may be tolerable without any further action being taken. Even it is not tolerable, the organisation might be not able to do something to mitigate the risk, or the cost of taking any action might exceed the potential benefits gained. The risk manager must justify his choice, in particular in the case where no action is undertaken (tolerance analysis).

III. 6.1. Determination of acceptable risk level:

"The 'residual risk' level (i.e. the risk level taking into account existing controls and mitigating actions) depends on risk level and management's risk acceptance or tolerance. Management decides if additional measures are needed to further reduce residual risk level or has to be accepted. In some cases, residual risks may have to be accepted for several reasons. Firstly, reducing the risk exposure to "zero" would demand very significant control measures whose costs would be disproportionate to the benefits. Secondly, certain risks are outside management's control. "

In managing risks, the assessor or risk manager should focus both on the internal factors of the organisation (such as the quality and motivation of the staff, turnover of staff, quality of control systems or rapid growth of workload, etc.) and external factors (such as the existing legal environment and the possibility of changes in legislation, technological developments, the general risk environment in which the organisations are operating, ….).

In general, a risk with a low impact and a low likelihood of occurrence does not need any further consideration, whereas a risk with a high impact and high likelihood will require priority action. However, there could be situations where the management estimates that the risk can or has to be accepted even thought it is critical. This is typically the case when management does not control the risk (external risks).

The management decides which risks belong to a low level of acceptance and if additional mitigation activities are not necessary or not. The risk manager may decide that in some activities, high risks are accepted. On the other hand, the risk manager can decide that mitigation activities need to be carried out in the case of medium or low risk level.

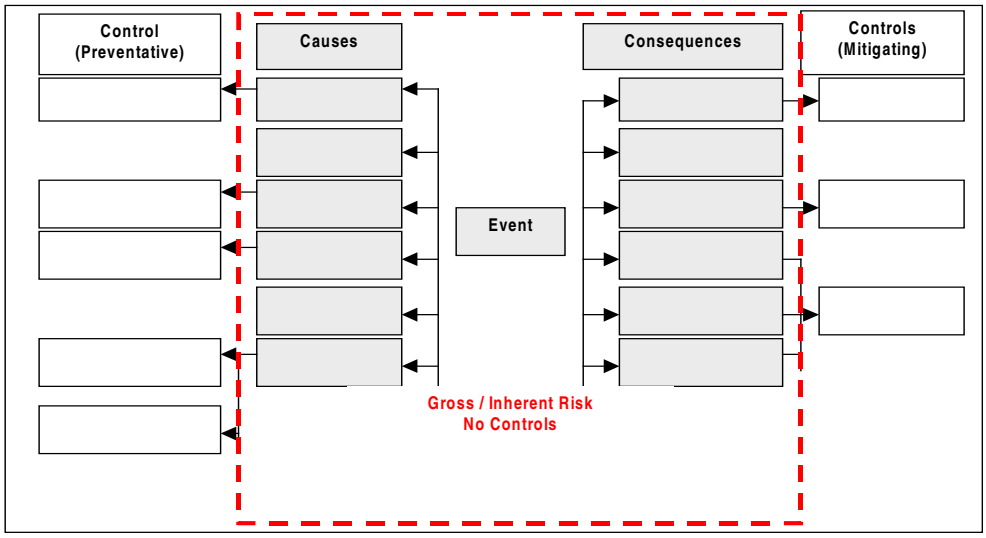
III.6.2. Implementation of risk response:

Implementation of the risk response means to adopt the appropriate measures in order to minimise the likelihood and impact of the risk event in direction to zero. Appropriate

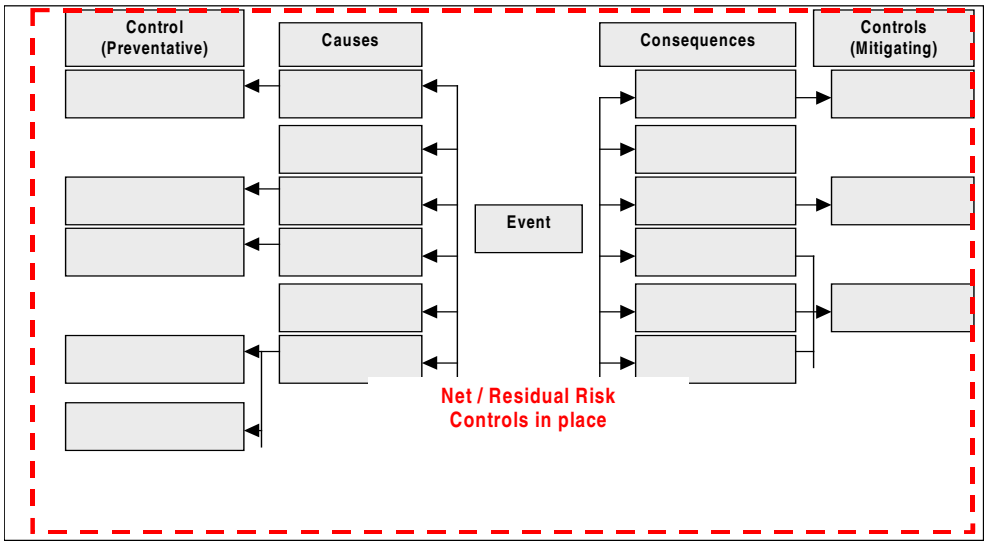
measures implementation requires however to make a clear distinction between consequences of the event or risk occurring/ risk symptoms and the causes of the event/ risk occur.

A bow tie diagram can easily support this approach by defining the event or event to be prevented, threats that could cause the event to occur, consequences of the event occurring, controls to prevent the event occurring and controls to mitigate against the consequences.

1st step:



2nd step:



Appropriate action plans, corresponding to the selected risk responses, should be established to ensure that concrete measures are taken to reduce the risks (causes of the risks).

In some cases when the risk can be reduced immediately or within a short period of time, no elaborated action plan is needed. The management of other risks may require substantial efforts over a long period of time (e.g. modified legislation, new IT system, changing organisation and management structures, etc).

Therefore, an action plan should be elaborated that requires a detailed organisation and planning. It must include the following information:

- A detailed description of the risk concerned;
- A detailed description of the actions / measures to be taken;
- The person responsible for the actions / measures to be taken;
- Target deadline for each phase of the project, and the final target deadline;
- Resources needed to implement the plan (if necessary);
- Expected results of the action.

Control risk corresponds to the risk that a misstatement or an error that could occur in an activity will not be prevented or detected and corrected on a timely basis by the internal control systems.

The 'control risk' is limited by ensuring that an effective programme of checks is in place, designed to verify the legality and regularity of the transactions.

Examples of control risk indicators: staffing/workload levels, staff turn over level, number of complaints/claims, figures of errors automatically or manually detected by internal control system, figures of errors detected by other control instances (higher level within the control systems, Supreme Audit Institution).

III.6.3. The control strategy:

The article 12 of the PIFC Law currently regulates the control strategy. The control strategy must take into account the three following findings:

- **Internal control measures**:

- **Preventive actions** are designed to prevent the occurrence of failures, inefficiencies, errors and weaknesses. For that reason, preventive controls are proactive actions operating during the course of an activity. These controls constitute the best practice in terms of their cost, as they prevent losses and reduce certain risks. They must assess through four criteria: monitoring; organisation; documentation; traceability.
  Ex: segregation of duties, authorisation and approval, assets access control, checking arithmetical accuracy before payment.

  See Annex No 5: "Model of Organisational / Functional Chart".

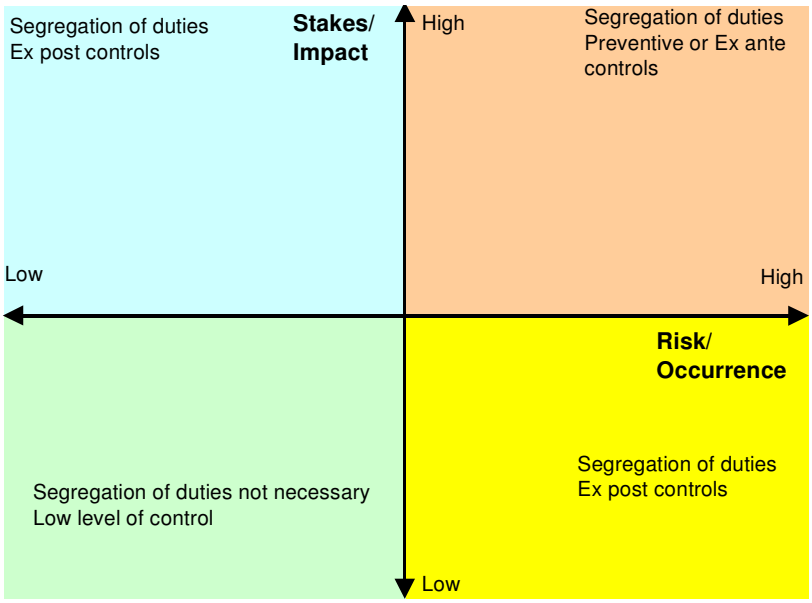
- **Detective actions** are designed to detect and correct failures, inefficiencies, errors and weaknesses. They operate after an event has occurred or an output has been produced and they should reduce they enable remedial action to be taken. Detective controls are used to improve procedures or preventive controls. They must be implemented by filling out the "Internal control sheet". If not, the internal control system is considered not to be relevant or reliable.
  Ex: reconciliation between the payment order and the receipt.

- **Corrective actions** are designed to correct the circumstances arising from the undesired events that came true. They must be traced by detected errors documents or files.

See Annex No 6: "Models of control sheet".

In practice, the above categories may not be clearly distinguished and a single control may operate to cover two or more functions. For instance, supervision covers preventive and detective controls.

- **Management of the level of control :**



The level of control must be adjusted both to the risk impact and to the risk occurrence. It must be periodically considered by the Managers.

- **Internal Control Monitoring:**

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing or separate evaluations are designed to provide information on whether internal control over financial reporting remains effective. Design is such that monitoring facilitates timely identification of control failures and remediation.

On-going evaluations are designed to provide continuous monitoring of the controls. Separate evaluations (internal audit) need to be carried out by knowledgeable personnel with sufficient frequency and scope to manage the risks associated with control failures. Internal control deficiencies should be reported upstream, with serious matters reported to top management.

Monitoring is effective when it is designed such that control failures or deficiencies are identified in a timely fashion, communicated to those who have responsibility for the controls, and the correction of the control deficiency in a timely fashion is facilitated.

III.7. STEP 7: Monitoring and reporting

Risk exposure changes over time. Risk responses that were once adequate may become irrelevant; control activities may become less effective or no longer performed. For instance, new risks may emerge during the year as a result of modifications in activities and objectives, re-organisation of management structures or systems, changes in external working environment. They may be identified via the regular management activities, internal control, ex-ante / ex-post controls and other verifications and analysis.

In order to ensure that the State Treasury action plans continue to be relevant and effective at all levels, regular monitoring and reporting should be carried out. Since already identified risks may evolve and new risk may emerge, monitoring is also needed to ensure that risk register is kept up-to-date.

The Risk register includes the risk mapping and the action plan follow-up.

III.7.1. Risk Mapping:

Risk mapping is a tool used for the identification, control, and management of risk. By considering the risk mapping approach the State Treasury should be aware it is not a one shot solution and the results are not carved in stone. Rather it is an iterative process that refines management understanding of the exposures that it is managing, and measures the effectiveness of the mitigation strategies employed in controlling risk.

The risk mapping process includes the six following steps:

- **Identify**: risks must be identified in order to ensure that the full range of significant risk is encompassed within the risk management process. The final 'risk map' should be checked for consistency with the State Treasury strategic and operational plans and intended risk management processes.

- **Understand:** existing risk measurement and control processes should be documented.

- **Evaluate:** this involves estimating the frequency of loss events, estimating potential severity of loss events, and considering offsetting factors to limit frequency or severity of losses and understand potential control processes.

- **Prioritise** the evaluation of risk frequency, severity, and controls form Step 3 are then consolidated. The risks are ranked according to a combined score incorporating all three assessments. The ranking starts with the risk with the worst combination of frequency, severity and control scores.

- **Manage:** the consolidated evaluations from Step 4 should then automatically indicate the risks that need the most attention. The critical stage involves deciding how to manage the most important and largest risks, considering with the State Treasury strategy and objectives.

- **Revisit:** the process of identifying, understanding, evaluating, and prioritising risks must be repeated regularly in order to ensure that the key risks are being appropriately managed.

Each year or ideally half-year, management will review what happened in the recent past and assess whether risk management efforts produced the expected results. Then it is ready to start the process again from Step 1.

The **risk mapping** architecture reproduces:
- into the columns the structure used in the assessment forms
- into the lines the division into processes and activities

The three risk levels can be spotted immediately on the risk-mapping table by the three different chosen colours:

- green for “low”
- orange for “medium”
- red for “high”

This colour typology is identical as the one used in the risk assessment form.

The Risk mapping is mainly filled out with all the forms approved by the risk managers (their role is explained more in detailed in chapter IV- 2.2). However the Risk Management Co-ordinator (his/her role is explained more in detailed in chapter IV- 2.3) must take into account the conclusions or recommendations coming from the external and internal audit reports to adjust the different risk levels (inherent risks; control risks; residual risks).

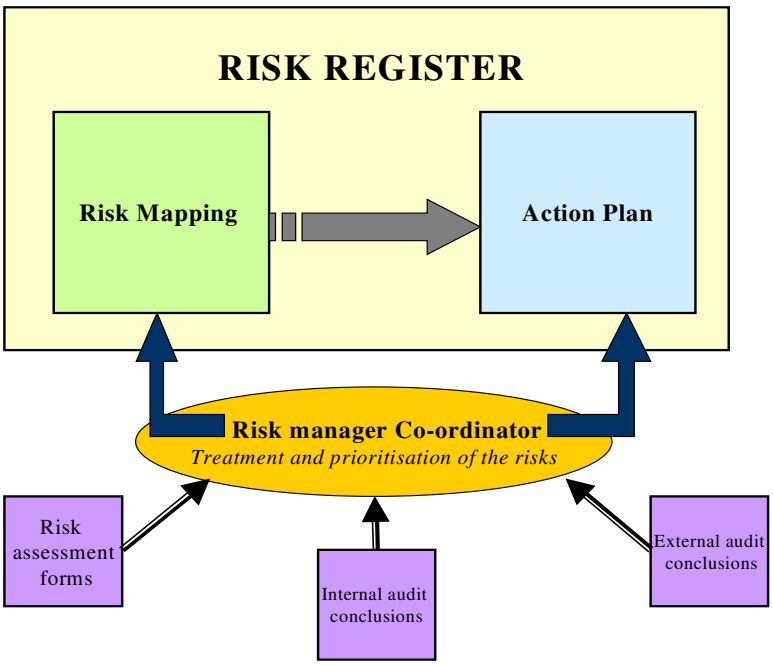
Only the RMC is in charge of the last column “**central risk level**”. From the assessment level carried out by the Risks Managers, the RMC must rank the risk mitigation priorities. The prioritisation must be based on the financial stakes of the activities and on the strategic goals decided by the State Treasury top management (State Secretary level).

III.7.2. The State Treasury Action Plan:

The plan should contain activities necessary for the implementation of the financial management and control system, deadlines for execution, and persons responsible by individual activities. The Risk Manager Co-ordinator holds the consolidated action plan.

See annex No 7: “Model of Action Plan for weaknesses elimination”.

III.7.3. General scheme: Risk register feeding



According to this scheme, the Risk Manager Co-ordinator is responsible for the final treatment of the information concerning the risks detected in the State Treasury.

In order to prioritise the internal control actions to be led, he has to reconcile the different information inputs (risk assessment forms, internal and external audit conclusions) and possibly manage the contradictions that could emerge from these confrontations of information.

IV. STATE TREASURY RISK MANAGEMENT STRUCTURE AND RESPONSIBILITIES

IV.1. Risk Management strategy

Risk identification and assessment involve the elaboration of the risk management strategy, established at the highest official level. According to the Public Internal Financial Control Law - PIFC, (Croatian Official Gazette No 141/06), each public body is compelled to develop a risk management strategy. Control activities concentrated on risk reduction must be analysed and updated at least once a year (ideally, twice a year).

Regarding the development and functioning of management and control system in the State Treasury, it is important that all those involved in the State Treasury processes have an overall understanding of the risk management used as a management tool.

The overall risk management will derive from the risk measurement and prioritisation. The purpose of managing risks is to constrain them to a tolerable level. Any action that is taken by the organisation with a view to manage a risk becomes part of the "internal control".

The identification of risk factors presumes good co-operation between all structural units and all management levels of the State Treasury structure concerned. In designing control it is important to give reasonable assurance that the associate risk will be constrained rather than eliminated. Every control action has an associated cost. Hence it is important that the control action offers value for money in relation to the risk it is controlling.

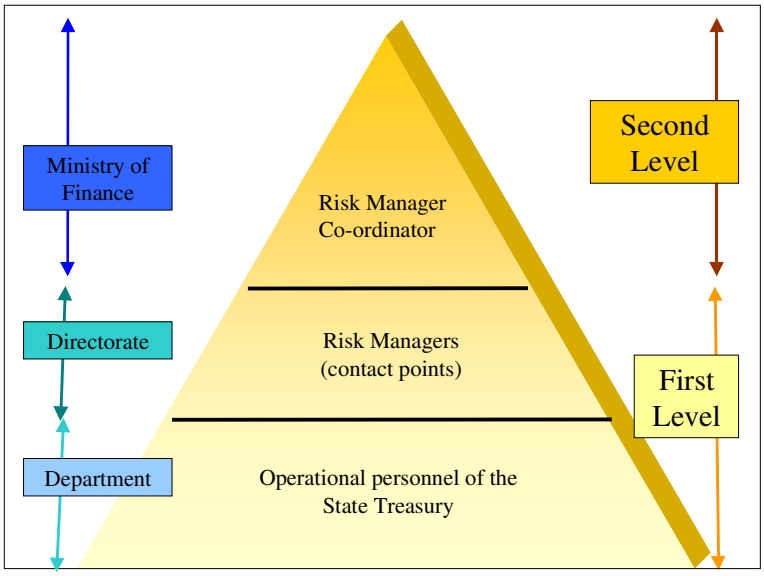
IV.2. State Treasury Risk Management structure

Implemented risk management activity should effectively follow functional relations between Directorates involved in the State Treasury processes.

Therefore, in order to effectively implement and conduct risk management activity, the functional responsibilities have to be defined within risk management structure. It will include:

- each staff member or official of the State Treasury;
- Risk Managers (RM) from every Directorate;
- The Risk Management Co-ordinator (RMC);

Architecture of the internal control system



The diagram shows the two levels of internal control in the Croatian Ministry of Finance (including the State Treasury).

The risk manager co-ordinator could be part of the internal audit unit (strengths: sharing the risk mapping, methodology would be closed to the internal audit methods and tools / weakness to be avoided: there should be a clear segregation of duties between the functions of internal auditor and the function of risk manager co-ordinator).

There must be a referent official, the risk manager, in each body involved in the State Treasury. He must be implemented at the level of each Directorate. His role is to corroborate the level and type of risks identified by the operational staff or managers.

See Annexes No 8: "Organisational flow chart for the risk management", and No 9: "First and second levels of control arrangements".

IV.2.1. State Treasury Staff:

It is the main part of the first level of internal control system in a bottom-up approach based on a declarative assessment. Indeed the methodology is based on **self-assessment**, from the internal control sheet and the risk assessment form.

The State Treasury Staff of each Department must fill the Risk assessment Form twice a year (regular updating).

See annex N°2: "Risk assessment form template".

IV.2.2. Risk Manager (RM):

The Risk Managers are responsible for risk management in each Directorate of the State Treasury. The duties of the Risk Manager are to:

- collect the risk assessment forms and ensure that they are completed correctly,
- supervise the risk level and risk justifications of the assessment forms (formal approval),
- forward the risk assessment form to the Risk Manager Co-ordinator;
- follow the action plans coming from the different departments of the Directorate,
- ensure that there is a culture of risk awareness in State Treasury.

Risk Managers should be aware that Risk assessment forms are normally filled without taking into account the existing mitigation measures, e.g. by internal control measures.

IV.2.3. Risk Management Co-ordinator (RMC):

The Risk Management Co-ordinator is responsible for the risk assessment of the State Treasury operating structure. He has to collect and compile risk assessment forms from all Risk Managers. In addition, the RMC must be aware of the high risk identified and should

take action to ensure communication of risks identify. RMC should also ensure a continuous risk assessment, monitoring of risk levels, in order to determine trends of occurrence (update of the risk registers).

Depending on the nature of the risk and scope of his responsibilities RMC could undertake necessary actions regarding risks inside his competency.

The duties of the RMC include:

- collecting the risk assessment forms received from the various Risk Managers;
- recording the details from the risk assessment forms in the Risk Register (risk mapping) and consolidated action plan;
- reviewing the risk assessment forms and gathering further information if needed;
- monitoring the progress of risk mitigation.
- elaborating risk mapping and following its half-year updating.
- consolidating action plans for the whole State Treasury and following their implementation.

It is the responsibility of the RMC to ensure that the Risk Managers are trained in and actively support the risk management process.

Risk mapping is to be made available to all staff of the State Treasury, in order to give risk assessment added value and enable more efficient solutions of the differences concerning offered mitigation activities, deadlines and responsible persons, adding mitigation activities and consolidating similar risks that are brought out by different structural units.

Receiving a risk assessment from a Risk Manager, the RMC should ponder if the risk is already covered by internal control measures, and to what extent. Additionally, the conclusions and recommendations given by internal auditors and laid down in internal audit reports should also be considered by the RMC when updating the risk mapping.

Organisation of risk manager meetings on a regular basis is recommended. The RMC should set up the agenda of these meetings.

V. FOLLOW UP AND ANNUAL REPORTING

V.1. Follow up: annual review and risk register updating

The RMC must conduct an annual review of its internal control arrangements to act as a basis for the statement on internal control in the annual activity report.
Every year the RMC must update the risk register and re-evaluate the risk level of the "central risk level" in the dedicated column of the risk register. In addition, the State Treasury Risk Manager Co-ordinator must elaborate according to the PICF Law (Article 15), an **annual report** about internal control system.

V.2. Annual report

- **Current situation:**

The report produced annually is only based on internal control self-assessment questionnaire and the instruction for FMC. The structure of this annual report includes all 5 components of internal control system (control environment, risk management, control activities, information and communication, monitoring and review).

- **Improvement proposals:**

The annual report to be made by the State Treasury is strategically important paper to ensure ever-increasing quality standards for managerial accountability.

The purpose of this report is therefore to give the PIFC authorities in Croatia the benefit of a format to measure the progress achieved on a yearly basis by the State Treasury. Logically, such report should provide for an annual summary record of State Treasury activities in the FMC area, and include an assessment of the commitments of the State Treasury Directorates to bring their FMC systems up to EU best practice.

The reports should be as much as possible problem **solving oriented and operational** and should make recommendations for actions towards further improvement.

In terms of content, annual report must make reference to **the improvements** and **developments** achieved in the relevant period compared to the situation in previous years. The improvements, though, relate especially to the legislative and methodological developments, training and institutional establishments of FMC and risk management.

Mention must be also made in the annual report of assessment made by the State Audit Office (Audit opinion on internal control system) on the quality of FMC and by the internal audit. It may be that State Audit Office has not yet started just exercises, but in the coming years such audits would certainly be useful in providing external overall PIFC assessments.

This **State Treasury internal control report** must include the following parts:

- Reference frameworks and initiatives reflected in the report
- The environment of the State Treasury's internal control system:
  - The institutional environment
  - The objectives, method and scope
- Players in the risk control system:
  - Internal control supervision players (Risk Managers, RMC)
  - Operational organisation of risk control
  - Periodic evaluation of the internal control system by the audit function (internal and external audit)
- Internal control strategy: an overall risk control system designed to achieve an ongoing improvement
  - Management steps of the State Treasury internal control system risk register: risk mapping and action plan
  - Organisation of the Directorates, ongoing adjustments of controls to risks
  - Documentation of the State Treasury business processes, activities and risks
  - Traceability of players: strengthening the audit trail
- A maturity level assessment of fiscal risk management
- Conclusion and outlook.

See Annex No 10: "Template structure suggested for the Annual Report".

ANNEXES

- Annex No 1: "Summary of the Book of processes".

- Annex No 2: "Risk assessment form template".

- Annex No 3: "Model of Risk Mapping".

- Annex No 4: "Internal Control Assessment Questionnaire"

- Annex No 5: "Model of Organisational / Functional Chart".

- Annex No 6: "Models of Control Sheet".

- Annex No 7: "Model of Action Plan for weaknesses elimination".

- Annex No 8: "Organisational flow chart for the risk management".

-Annex No 9: "First and second levels of control activities"

- Annex No 10: "Template structure suggested for the Annual Report".

ANNEX No 1

LIST OF THE STATE TREASURY BUSINESS PROCESSES

1. BUDGET PREPARATION

1.1 Fiscal impact assessment of legislation and international treaties and agreements

1.2 Developing instructions for the preparation of the State Budget proposal for the tree year period

1.3 Preparing and drafting the State Budget and the consolidated State budget

1.4 Drafting and approving the reallocation State Budget funds to 5% and decision on the redeployment of State Budget fund (above 5%)

1.5 Drafting Government Decree on the manner of calculating the amount of equalisation for the decentralised functions for Local and Regional Self-governments

1.6 Financial aids from state to Local and Regional Self- governments

2. BUDGET EXECUTION

2.1 Payment execution in accordance with adopted State Budget and other normative acts

2.2 Liquidity planning and financial flow of the State Budget Management

2.3 Foreign currency payment operations

3. PUBLIC DEBT MANAGEMENT

3.1 Making a strategy and annual plan of borrowing

3.2 Borrowing funds at the domestic market through issuing treasury bills

3.3 Repayment of matured liabilities

3.4 Collection of activated Government Guarantees

3.5 Issuance of Government Guarantees

4. BUDGETARY SUPERVISION

4.1 Working in the office on received petitions/request

4.2 Preparation for Budgetary Control

4.3 Execution of Direct Budgetary Control

4.4 Taking Budgetary Control Measures

5. ACCOUNTING AND STATE FINANCIAL REPORTS

5.1 Bookkeeping expenditure and revenue

5.2 Consolidated Financial State statements

5.3 Rebooking (work in progress)

ANNEX No 2
RISK ASSESSMENT FORM

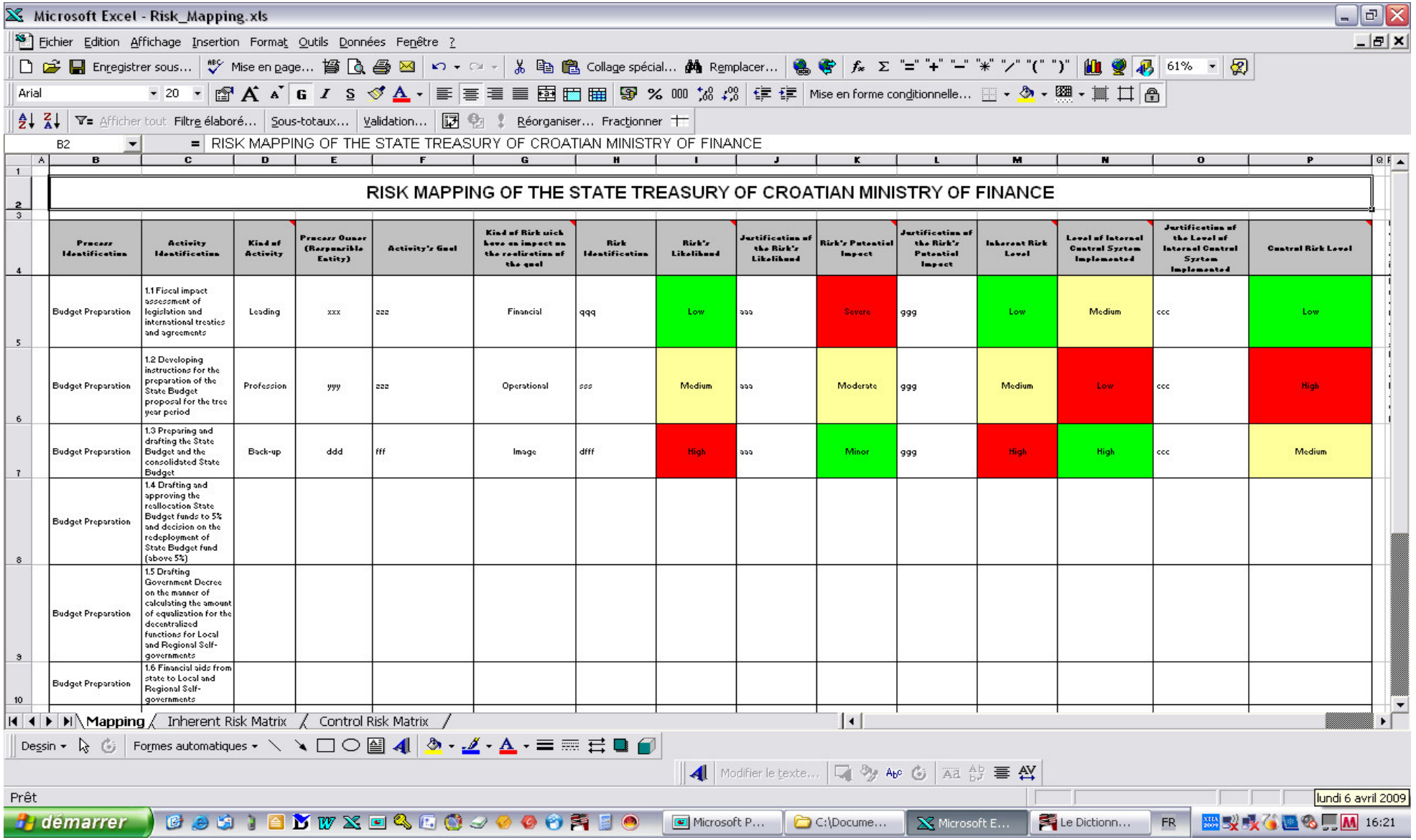
	RISK MAPPING OF THE STATE TREASURY OF CROATIAN MINISTRY OF FINANCE	*Risk Mapping Scale Reference*
	Risk Mapping Scale	

Name and function of the author		*Date of the analysis*
Name of the Risk manager		

Process Identification		
Activity Identification		
Kind of Activity	*Monitoring*	
	Business	
	Support function	
Process Owner (Responsible Entity)		
Activity's Goal		
Kind of Risk having an impact on the realisation of the goal	*Strategic*	
	Operational	
	Organizational	
	Compliance	
	Performance	
	Financial	
	Image / Reputation	
	Other (…)	
Risk Identification		
Risk's Likelihood	*Low*	
	Medium	
	High	
Justification of the Risk's Likelihood		
Risk's Potential Impact	*Minor*	
	Moderate	
	Severe	
Justification of the Risk's Potential Impact		
Level of Internal Control System Implemented	*No control in place*	
	Low	
	Medium	
	High	
Justification of the Level of Internal Control System Implemented		

Date of scale validation	

ANNEX No 3: MODEL OF RISK MAPPING



RISK MAPPING OF THE STATE TREASURY OF CROATIAN MINISTRY OF FINANCE

Process Identification	Activity Identification	Kind of Activity	Process Owner (Responsible Entity)	Activity's Goal	Kind of Risk wich have an impact on the realization of the goal	Risk Identification	Risk's Likelihood	Justification of the Risk's Likelihood	Risk's Potential Impact	Justification of the Risk's Potential Impact	Inherent Risk Level	Level of Internal Control System Implemented	Justification of the Level of Internal Control System Implemented	Control Risk Level
Budget Preparation	1.1 Fiscal impact assessment of legislation and international treaties and agreements	Leading	xxx	zzz	Financial	qqq	Low	aaa	Severe	ggg	Low	Medium	ccc	Low
Budget Preparation	1.2 Developing instructions for the preparation of the State Budget proposal for the tree year period	Profession	yyy	zzz	Operational	sss	Medium	aaa	Moderate	ggg	Medium	Low	ccc	High
Budget Preparation	1.3 Preparing and drafting the State Budget and the consolidated State Budget	Back-up	ddd	fff	Image	dfff	High	aaa	Minor	ggg	High	High	ccc	Medium
Budget Preparation	1.4 Drafting and approving the reallocation State Budget funds to 5% and decision on the redeployment of State Budget fund (above 5%)													
Budget Preparation	1.5 Drafting Government Decree on the manner of calculating the amount of equalization for the decentralized functions for Local and Regional Self-governments													
Budget Preparation	1.6 Financial aids from state to Local and Regional Self-governments													

ANNEX No 4: INERNAL CONTROL ASSESSMENT QUESTIONNAIRE

Internal Control Questionnaire Reference:	

Name of person(s) in charge of internal control assessment:	

Date of the analysis:	

Process Identification:	
Activity Identification:	
Process Owner (Responsible Entity):	

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
1. Organisational issues							
1.1. The organisation (who does what?)							
1.1.1. The State Treasury put in place job descriptions describing for each job both functions, tasks and duties, and related candidate profile expected?	Organisational Chart, Book of processes						Preventive Directive
1.1.2. The State Treasury put in place annual or multiyear written mission letters prescribing Specific Measurable Achievable Realistic and Timely (SMART) goals to achieve (Director level)?							Directive

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
1. Organisational issues							
1.1. The organisation (who does what?)							
1.1.3. The State Treasury put in place annual or multiyear performance indicators?							Directive
1.1.4. The State Treasury organisation is described in a organisational chart regularly updated, and mentioning if necessary functions, incumbent, substitute, delegations, IT systems authorisations, bookkeeping and related accounts authorised…?	Detailed Organisational Chart, audit trail						Preventive Detective
1.1.5. The State Treasury follows and updates the IT systems and database (Excel) list used by Sector, users and Activity?							Preventive Detective
1.1.6. Delegation responsibilities and authority limits are clearly defined, assigned and communicated in writing?	List of written delegations						Preventive Directive
1.1.7. The organisational chart includes segregation of tasks for incompatible functions?	Book of processes: audit trail and flowchart						Preventive
1.2. The different levels and steps of control							
1.2.1. Computerised controls system is integrated within IT systems used?							Preventive Detective

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
1. Organisational issues							
1.2. The different levels and steps of control							
1.2.2. For some transactions, an ex-ante control procedure is obligatory?							Preventive
1.2.3. For some transactions, an ex-post control system is put in place?							Corrective
1.2.4. For some transactions, a self-control system is put in place?			If yes, what are the modalities of control (exhaustive, sample, rate ...)?				Detective
1.2.5. For some transactions, a four-eye control procedure is put in place?			If yes, what are the modalities of control (exhaustive, sample, rate ...)?				Preventive Detective
1.2.6. For some transactions, a supervision control system is put in place?			If yes, what are the modalities of control (exhaustive, sample, rate ...)?				Preventive Detective Directive

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
1. Organisational issues							
1.2. The different levels and steps of control							
1.2.7. Some comparisons of current-period information with similar information for prior periods (from year to year, the current quarter to the same quarter last year, month to month, etc.) are made for some transactions?							Detective
1.2.8. Some transactions are reconciled with accounting information, operating information, external information?							Detective
1.2.9. Errors and irregularities detected are corrected in due time?							Corrective
1.2.10. Errors and irregularities detected are collected for annual analysis and follow-up indicator (typology, figures, amounts, and activity concerned...)?							Directive
1.3. Assets and supportive document safeguard general arrangements							
1.3.1. Is a logical security system in place (authentification for accessing to IT systems, data protection and safeguarding)?							Preventive Detective

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
2. Documentation issues							
2.1. Existing Documentation							
2.1.1. Activity is defined and described in directives, instructions cross-referenced and at all staff disposal?							Preventive Detective
2.1.2. Activity is described in flowcharts and audit trails. These latter are regularly used by staff and updated?	Book of processes: audit trail and flowchart						Preventive Detective
2.1.3. Activity is described in detailed guidelines?							Preventive Detective
2.2. Compliance with exiting documentation							
2.2.1. Some regulation reminding are regularly made to the staff?							Preventive Directive
2.2.2. Rules are regularly updated?							Preventive Directive
2.2.3. A training system for new regulation taking over is put in place?							Preventive Directive
3.1. Players identification							
3.1.1. For each transaction, it is possible to identify the staff involved in all steps?							Preventive Detective

Points of Control	Reference documentation (for information)	Answer	Comments	Tools of control used (check list, control fiche, supporting documentation...) taking into account the requested formalisation of control	Test of controls sample corroboration result (if used)	Level of Internal Control System Implemented	Category of control (for information)
3. Traceability issues							
3.2. Transactions traceability							
3.2.1. Transaction descriptions are clear and relevant?							Preventive Detective
3.2.2. Transactions archives safeguard guarantees previous years transaction traceability?							Preventive Detective
3.3. Controls traceability							
3.3.1. Self-controls are formalised with control forms?							Detective Corrective
3.3.2. Supervision controls are formalised with control forms?							Detective Corrective

Annex 5: MODEL OF ORGANISATIONAL / FUNCTIONAL CHART

TASKS	PERSON RESPONSIBLE	SUBSTITUTE REPRESENTATIVE	OPERATIONAL SUPERVISOR	DELEGATION OF SIIGNATURE	IT SYSTEMS USED – AUTHORISATION	SELF-CONTROL SHEET (S)	COMMENTS
Accounting and reporting function monitoring							
Goals policy setting up (operational goals)	Head of department	Mr./Ms	Executive Management			☐	
Department organisation							
Tasks assignment	Head of department	Mr./Ms	Executive Management			☐	
Documentation management & information flows	Head of department	Mr./Ms				☐	
Security of assets and IT hard systems responsibility	Each staff and the Head of Department: Mr/Ms		Executive Management			☐	
Accounting system organisation							
Accounting records and bookkeeping responsibility assignment (precise accounts concerned)	Head of Department		Financial Management Controller			☐	
IT systems access authorisation	Head of Department					☐	
Accounting transactions / bookkeeping deadlines management	Each staff involved in the activity: Mr/Ms		Head of Department			☐	
Accounting controls							

TASKS	PERSON RESPONSIBLE	SUBSTITUTE REPRESENTATIVE	OPERATIONAL SUPERVISOR	DELEGATION OF SIIGNATURE	IT SYSTEMS USED – AUTHORISATION	SELF-CONTROL SHEET (S)	COMMENTS
Control of significant transactions	Each staff involved in the activity: Mr/Ms		Head of Department, the Substitute and the Financial Management Controller			☐	Sensitive / material transactions included
Control of re-bookkeeping	Head of Department	Mr./Ms	Financial Management Controller			☐	
Control of accounting misstatements	Head of Department	Mr./Ms	Financial Management Controller			☐	
Control of adjustment between the main accounting and the sub-accounting systems	Each staff involved in the activity: Mr/Ms		Head of Department, the Substitute and the Financial Management Controller			☐	
Control of the trial balance and of contra accounts	Each staff involved in the activity: Mr/Ms		Head of Department, the Substitute and the Financial Management Controller			☐	
Clearing accounts (or suspense accounts) follow-up	Each staff involved in the activity: Mr/Ms		Head of Department, the Substitute and the Financial Management Controller			☐	

ANNEX No 6: MODELS OF CONTROL SHEET

6.1. INTERNAL CONTROL SHEET

Person 1 accountable for control (P 1)	
Name	
Unit	
Function	
Date	
Signature	

Person 2 accountable for control (P 2)	
Name	
Unit	
Function	
Date	
Signature	

INSTRUCTIONS:

- All persons assigned to perform controls must, for each control, tick the boxes using: ✓ **for OK or X" for No or N/A for not applicable** in the column corresponding to their respective position.
- Comments / notes may be added on the last page of the Check-list and must be cross-referenced (numbered) in the column "Note Ref. "
- The check-list must be signed by the performers of controls and reviewers once all controls are performed

Activity/ task	Control	Preventive action to be checked	Risk level	Check: % or all	P 1	P 2	Note ref.
1.1	01				☐	☐	
1.1	02				☐	☐	

NOTES / COMMENTS / INSTRUCTIONS:

Person 1 in load of control
Reference (to be reported in the column Note Ref) and Content of the notes / comments / instructions:
Person 2 in load of control
Reference (to be reported in the column Note Ref) and Content of the notes / comments / instructions:
Internal auditor
Reference (to be reported in the column Note Ref) and Content of the notes / comments / instructions:
Other
Reference (to be reported in the column Note Ref) and Content of the notes / comments / instructions:

This area is dedicated to comments / notes / references / etc…. of internal auditors				
Ref	***Date***	***Name***	***Comments***	***Signature***

6.2. SELF CONTROL FORM

Self-control form **Process / activity / task** **Foreign Currency Payment Operations/Treatment of the payment request/Control of accuracy and validity of foreign exchange payment concerning the payment request**

Frequency

Daily	Weekly	Monthly	Semester	Annual
Other: At each payment request				

Nature and type of control

self-control	Nature: regularity control

Control objectives

Having the insurance of paying on the basis of a valid payment request

Description of the way to implement the control

Checking the validity of the documents: signature, conformity of request of payment with supporting documents (invoices, contracts) and SAP system.

The control must be done before due date or at due date (at the outside) in case of late receiving.

Documents required implementing the control

Payment request, list of signature of authorised people, invoices and contracts, SAP data, institutional framework chapter in Book of processes.

Person in charge of the control

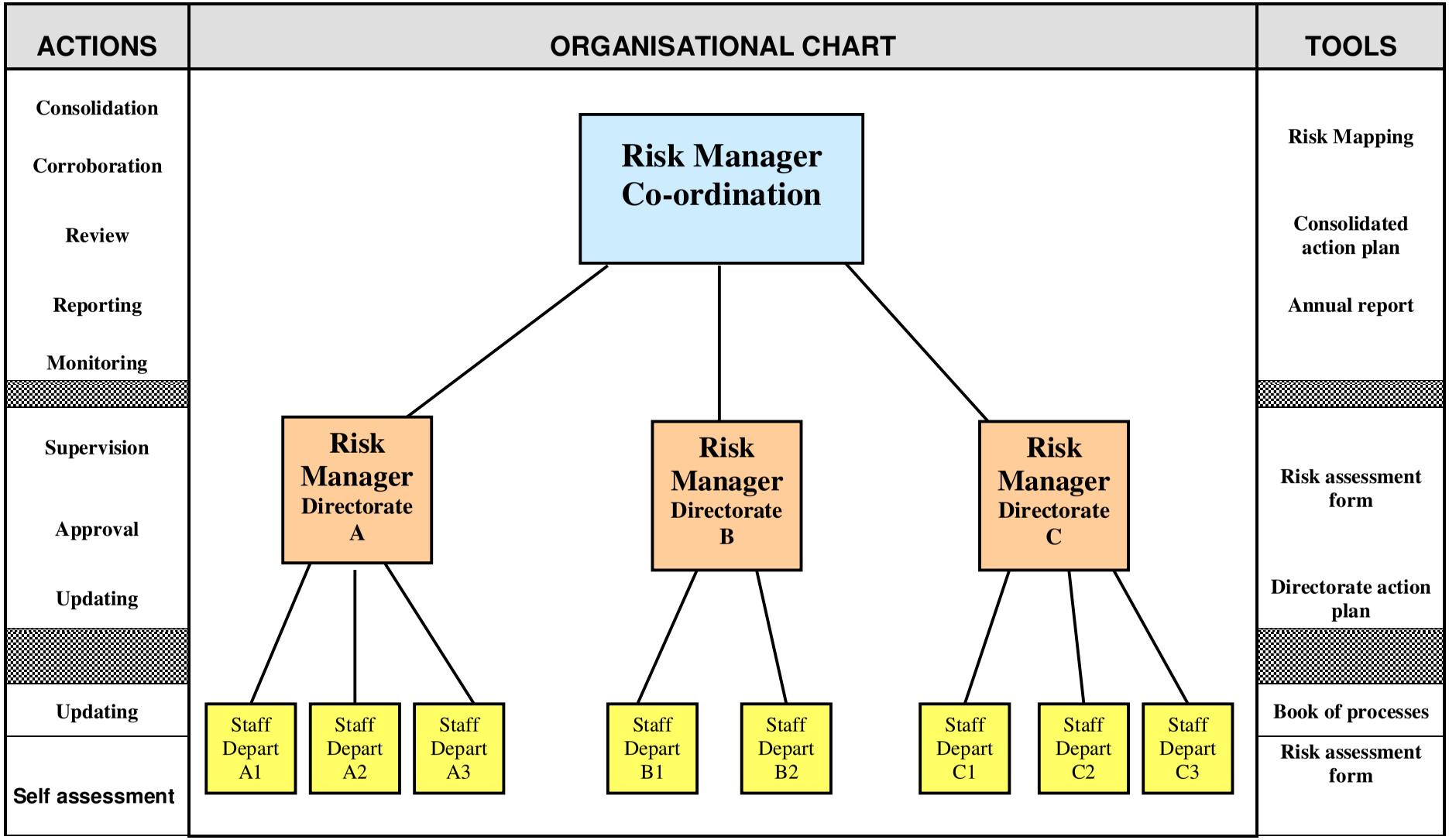
6.3. EX POST SUPERVISION CONTROL SHEET

MAIN CONTENTS			
Process			
Activity			
Process Owner (Responsible Entity)			
Name of the official in charge of the supervision control			
Nature of control	Control objective	Origin of control request	
Date of control	Date of previous supervision control	Statements and documents used for the control	
DD/MM/YYYY	DD/MM/YYYY		
SAMPLE and CONTROLS			
Number of operations controlled	Selection criteria	Amount of operations controlled	
CONTROL RESULTS			
No anomaly detected	☐	Anomaly(ies) detected	☐✓
Description of anomalies detected			
Detected anomalies causes			
Organisational causes			
Documentation causes			
Traceability causes			
Date of anomalies resolution	DD/MM/YYYY	Comment	
FOLLOWING OF THE CONTROL			
Instruction recall to persons in charge of the task ☐✓		Action to be implemented ☐	
Description of the action to be implemented			
SIGNATURE			

ANNEX No 7: MODEL OF ACTION PLAN FOR WEAKNESSES ELIMINATION

Risk Mapping Scale Reference	Process Identification	Activity	Risk category	Detected Risk	Comments on detected risk	Action	Responsibility (key players concerned)	Deadline (Month/Year)	Completed ? (Y/N)	Risk active / close? (A/C)
2009-BP-01	Budget Preparation	Fiscal impact assessment of legislation and international treaties and agreements	Organisational	The State Treasury does not put in place annual or multiyear performance indicators	This is being developed for the whole state budget					
			Documentation							
			Traceability							
2009-BP-02	Budget Preparation	Budget Preparation Process and Local Authorities Budget	Organisational							
			Documentation							
			Traceability							

ANNEX No 8: RISK MANAGEMENT ORGANISATIONAL CHART



ANNEX No 9: FIRST AND SECOND LEVELS OF CONTROL ACTIVITIES

1/ First level controls: Working units' level

Nature of controls	Ex-ante / ex-post control	Persons in charge of the control	Documentation used	Traceability	Filing
Self-controls	Ex-ante	The employee who manages the controlled operation.	Self-control form	Light traceability. IT system or written identification on the statements used to perform the control	IT system or the same rules as controlled statements filing rules.
Four-eye controls	Ex-ante	A different employee from the one whom initiated the operation (segregation of duties).	Four-eye control form	Light traceability. IT system or written identification on the statements used to perform the control	IT system or the same rules as controlled statements filing rules.
Supervision	Ex-ante (final approval of an operation)	An executive (head of department, of sector…)	Instructions, directives	Light traceability. IT system or written identification on the statements used to perform the control	IT system or the same rules as controlled statements filing rules.
	Ex-post (self-assessment through internal control questionnaires)		Questionnaires	Questionnaires answers	Specific filing (by the supervisor and the person in charge of internal control co-ordination).
	Ex-post (control of a specific operation or part of a process on a sample basis).		Instructions, directives	Ex-post supervision form	Specific filing (by the supervisor and the person in charge of internal control co-ordination).

2/ Risk management and second level activities

- **The action plan management**

1. Consolidating the FMC State Treasury action plan drafted by the directorates and approved by the n°1 (Risk manager co-ordinator)
2. Up-dating the action plan when a new action has been drafted by the directorates and approved by the n°1(Risk manager co-ordinator)

3. Following the deadlines and making regular reports to the n°1 about the action plan progress in accordance with the heads of directorates(Risk manager co-ordinator)

- **Control activities**

1. Proposing to the n°1 an annual program of ex-post supervision controls (in accordance with the heads of directorates) and second level controls according to the main risks identified (Risk manager co-ordinator and person in charge of second level controls).-
2. Centralising and formal analysis ex-post controls (self-assessment questionnaires and ex-post supervision controls).
3. Performing second level controls: performing corroboration controls (on the spot) according to the main risks identified. The second level controls may result in recommendations to the directorates up-dating the action plan.

- **Methodology**

1. Making proposals to improve the organisation of internal controls and the tools.
2. Training the staff when necessary.
3. Assist the working units to manage their risks.

ANNEX No 10: TEMPLATE STRUCTURE FOR ANNUAL REPORT

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