

SUMMARY

Performance audit report

“Efficiency of Establishment of Internal Financial Control in Ministries“

Although ministries have undertaken activities on establishing internal financial control system in the previous period, they need to intensify the activities towards further development and enhancement of the FMC system and IA function, in order to better support the management in achieving the operational objectives

The obligation to establish financial management and control and internal audit in public fund beneficiaries was first stipulated by the Budget System Law in 2009, including the obligations of the Ministry of Finance – Central Harmonization Unit, in terms of harmonizing and coordinating this process. Properly established internal financial control system could prevent potential errors, fraud and abuse in operations and ensure that the taxpayers’ money is spent in a lawful, economical, efficient and effective manner.

Although the ministries have initiated the procedure of establishing the internal control systems in a prescribed manner, audits of financial statements and compliance of operations conducted by State Audit Institution in the period 2016-2018 identified a number of issues and shortcomings in the process of establishing the internal financial control systems in several ministries.



Although the obligation to establish the FMC system was prescribed in 2009, one of the three audited ministries failed to undertake sufficient activities towards establishment and development of some elements from “COSO” framework until 2020, due to, as they explained, insufficient staff capacities compared to the complexity of tasks in the ministry's mandate. In the previous period, the other two ministries undertook the activities towards the establishment of this system in line with the standards and “COSO” framework, yet without regularly updating it, which created a risk of untimely measures for the improvement of the system.

Also, one ministry still has not established an internal audit unit, while the remaining two have not filled in the unit in entirety, due to, *inter alia*, imposed restriction on employment in the public sector and insufficient number of highly skilled staff in the area of internal audit. We also identified that one ministry had failed to align the internal audit annual plans with the Strategic plan and failed to execute all the planned audits. Internal auditors in ministries do not follow up on the recommendations implemented by the management, except for occasional follow up audits in which they assess the degree of implementation of recommendations. All of the above creates a risk that internal audit activities do not sufficiently contribute to the improvement of operations and achievement of objectives in ministries.

In the previous period, Ministry of Finance – Central Harmonization Unit provided expert support to ministries in establishing the FMC and IA systems through adopted methodological guidance and training courses. However, the FMC quality review process started only in 2019, while the IA quality review activities were performed without the adopted review program and defined work methodology.

Recommendations

In order to contribute to better operations of ministries, State Audit Institution has issued some of the following recommendations:

To the Ministry of Education, Science and Technological Development:

- to continue with establishing the FMC system,

To the Ministry of Construction, Transport and Infrastructure:

- to undertake activities to fill in the vacant internal auditor posts,

To the Ministry of Youth and Sport:

- to continue with activities on establishing the internal audit unit,

To the Ministry of Finance - Central Harmonization Unit:

- for more efficient review of IA quality in public fund beneficiaries, to adopt a review program and define the work methodology for IA quality review.