



REPUBLIC OF CROATIA
Government of the Republic of Croatia
Ministry of Finance

REPUBLIC OF CROATIA
PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM
DEVELOPMENT STRATEGY
FOR THE PERIOD
2009-2011

Zagreb, September 2009

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ANNEX: ACTION PLAN FOR OBJECTIVES AND MEASURES IMPLEMENTATION

PREFACE

What you see in front of you is the third in a row Public Internal Financial Control (PIFC) Development Strategy in the Republic of Croatia.

Previous Strategies were aimed to create the necessary assumptions to establish and develop this system with budget users, including the creation of regulatory framework and organisational capacities, the tasks which were successfully performed.

The purpose of this Strategy is to further develop the system established to serve as a tool for the managers that would help them manage budgetary resources in an accountable, transparent and successful manner.

The need for a new Public Internal Financial Control System Development Strategy for the specified period has arisen because of the budget reforms ignited on the basis of the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 and the new Budget Act (Official Gazette 87/08).

The budget reforms initiate changes concerning approach to managing budgetary resources, putting greater emphasis to the links between objectives and budgetary resources.

The managers are faced with the responsibility not only for the amount and type of cost versus the planned amounts, but also for the results achieved, i.e. they have the responsibility to achieve objectives included in plans and programmes within the limited budget. In doing so, it is important to meet quality standards in rendering public services and deadlines expected for their execution.

The public internal financial control system represents a tool to help the managers to respond to the aforesaid requirements, and should thus be supportive of budget reforms implementation.

To ensure this, the managers should necessarily be aware of the internal financial control system capabilities to use it for its intended purpose.

It may be noted that the established systems of internal financial control still aren't fully utilised for their intended purposes and that they frequently represent an "add-on" in the existing management systems.

Therefore, this Strategy is first of all intended for the public sector managers, and is expected to improve the existing management processes specifically through the employment of the elements of the public internal financial control system.

The Ministry of Finance, primarily the Central Harmonisation Unit (CHU), will keep providing its support to this effort. CHU is responsible for coordinating the activities involved in the establishment and development of this system.

To make sure that there is coordination between approaches to the public internal financial control system development and to the budget system developments, the Central Harmonisation Unit will closely cooperate with the State Treasury.

1. INTRODUCTION

During the last few years, the Republic of Croatia has been implementing extensive reforms aimed at developing public finance management.

Many of these reforms were initiated by the need for adjustment and improvement in the existing public resources management and control system during the period of pre-accession preparations for membership of the European Union, following the requirements set by the European Union.

Importantly, the aim of the reforms has been not only to meet the membership conditions but also to genuinely improve the public resources management and control systems, in order to prepare as a member-state for the challenges of membership and to make it possible to take advantage of the availability of EU funds.

One such reform includes the establishment and development of Public Internal Financial Control in the Republic of Croatia.

With becoming a candidate country, the Republic of Croatia started in 2004 with the activities aimed at establishing and developing of this system, in line with the internal financial control concept as developed by the European Commission for this area. The concept is known under the acronym of PIFC (Public Internal Financial Control).

In keeping with the set concept, the Republic of Croatia undertook numerous activities during the past five years to create all the necessary assumptions for the establishment and development of the system, including:

- the adoption of the initial strategic documents;
- drafting of laws and bylaws;
- the creation of organisational capacities and human resources; and
- the implementation of the system with budget users at central government and local levels.

The activities carried out to date have resulted in a significant progress, a fact also confirmed by the 2008 EC Progress Report for Croatia in its section on Chapter 32 – Financial Control. The alignment in respect of internal financial control system is being conducted under this Chapter.

While the alignment benchmarks have been successfully met, the public internal financial control system itself established within budget users evidently is not fully used as a vehicle for an improved budget resource management.

The reasons for this greatly stem from the fact that the internal financial control system is frequently perceived as an “add-on” to the existing budget resource management systems.

However, the internal financial control system needs to be fully integrated into the management processes, especially the budget management process. The aim of this Strategy is to ensure that further development now envisaged has the effect of:

- raising awareness of financial management as an integral part of the management process impacting on the whole organisation;
- strengthening the roles of the existing finance directorates/sectors as coordinators of the financial management and control development within budget users and as providers of support to managers in making use of financial management;

- developing of financial management and control in the budget cycle processes, from the budget resources planning stage to the budget resource execution and execution monitoring;
- developing accounting systems (cost and management accounting) as the basis for better quality financial information systems to ensure information needed for decision-making and to monitor their implementation;
- developing risk management as an integral part of management process in general, which implies the need to take account of the risks influencing the achievement of objectives within the deadlines and the available budget resources, but also of the costs attached to the mitigation of such risks;
- strengthening internal audit in terms of its expertise and scope of work;
- strengthening cooperation between internal audit and managers;
- making more efficient use of the existing auditing resources through the creation of specialised teams and through conducting horizontal and vertical audits.

The development of internal financial control system as envisaged in this Strategy to a great extent has already been achieved within the framework of the EU pre-accession funds management system. Namely, an established and operational system of internal financial controls within the institutional framework in charge of implementing the EU pre-accession programmes is the basic condition for obtaining the licence of management responsibility from the European Commission and for managing the EU funds. Successful implementation of the internal financial control system enabled the Republic of Croatia to assume the responsibility for managing the EU pre-accession funds.

Since 2005, the institutions involved in the EU pre-accession programmes implementation commenced specific implementation of all internal financial control system elements.

In that respect, roles of all stakeholders were defined, job descriptions were made, assignment of authorities and the responsibilities was devised respecting the segregation of duties principle, financial management model in sequencing institutions was established, reporting and communications system for management purposes was put in place.

In addition to legislation and bylaws, manuals were also produced to provide detailed procedures from the areas of planning, programming, tendering and contracting, accounting and financial reporting, archiving, irregularities management and risk management.

Internal audit is required to play a very active role, as there is a need to continuously monitor and evaluate the performance of the governance system, timely point to weaknesses and difficulties that may arise in the system and make recommendations to improve the operations.

The managers responsible for the establishment and the effective operation of the system of internal financial controls submit annual statements of assurance to guarantee that the system of controls for which they have responsibility are operating in accordance with the prescribed rules. Should there be any weaknesses, managers are required to produce a relevant report, coupled with a plan to eliminate the weaknesses. The lower management levels supply the senior management levels with statements of assurance, which ensures the highest managerial level's insight into the functioning of the overall financial management system under its responsibility.

During the previous periods, the experiences gained in the development of the public internal financial control system within EU pre-accession funds were insufficiently used as a model for the development of the system for the national needs.

In mid-2008, the Central Harmonisation Unit initiated more intensive cooperation with the institutions in charge of managing and implementing the EU pre-accession funds.

This cooperation will continue during the forthcoming period to achieve general consistency in the development of the methodology and coordination of activities aimed at developing this system for both EU and national funds, while taking into account specific requirements of each.

The internal financial control system development envisaged in this Strategy reflects the experiences gained in EU funds management.

The findings and recommendations from the SIGMA report on the status of public internal financial control system in the Republic of Croatia (published in October 2008), and supported by the European Commission, DG Budget, have been incorporated into this Strategy as far as possible.

This Public Internal Financial Control Development Strategy for the period 2009-2011 applies to the users of the State Budget and the extra-budgetary organisations and funds (hereinafter referred to as budget users).

Still effective for the budget users of local and regional self-government units is the *Strategy of Independent Public Internal Financial Control (PIFC) Development in the Republic of Croatia for Local and Regional Self-Government Units*, referring to the period 2007-2010. However, the measures to improve the system envisaged in this Strategy should be incorporated at local levels as well.

2. THE OBJECTIVES OF THE STRATEGY

The purpose of the Public Internal Financial Control System Strategy for the period 2009-2011 is to determine further developmental directions with a goal of having the internal financial control system contributing to an **accountable, transparent and successful management of public resources**.

To achieve this, the management processes should see the incorporation of a greater degree of control standards and the development of budgetary resources management following the value-for-money principle.

The budgetary reforms being introduced through the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 and the new Budget Act¹ are also aimed at ensuring accountable, transparent and efficient management of budgetary resources. Their focus is the following:

- establishment of strategic planning and defining strategic goals and priorities;
- linking the objectives and budgetary resources;
- development of programme budgeting and performance indicators;
- greater flexibility in managing budgetary funds.

The implementation of budgetary reforms at the level of budget users, line ministries and state administration bodies should be supported and coordinated through activities aimed at strengthening the internal financial control system.

A greater degree of flexibility in managing the budgetary resources by the line ministries also requires a greater degree of accountability on their part not only for the level and type of costs but also for the achieved results.

The readiness of the line ministries and other state administration bodies to accept greater accountability is directly dependent on how developed is the internal financial control system is.

Therefore, the further development of the internal financial control system should be support to the budgetary reforms, as specifically highlighted in this Strategy.

The activities and measures envisaged in the Strategy aim to achieve a stronger integration of financial management and control into the existing management processes, especially into budget management. Specifically highlighted is the importance of the finance directorates' role in terms of coordinating the activities aimed at developing financial management at the budget user level, while highlighting the fact that managing budgetary resources does not only fall under their remit and responsibility and that finance directorates are not the only ones that are supposed to care about the way in which budgetary resources are being spent and collected. Financial management and accountability for budgetary resources should be an integral part of managerial accountability at all levels of management.

Concerning internal auditing, the further development activities and measures take into account the fact that internal auditing within budget users is still a relatively new profession requiring further investment of effort in the development of work methodology, the strengthening capacities of internal auditors, including their number and competence. Furthermore, it is necessary to make sure that managers at all levels improve their understanding of the role of internal audit and accept and use internal audit as a tool in their hands.

¹ Official Gazette no. 87/08

Another objective of this Strategy is to ensure a uniform approach to and general consistency with the internal financial control system development for both national and EU resources used through the EU pre-accession funds, while taking account of certain specific requirements of both.

3. THE PUBLIC INTERNAL FINANCIAL CONTROL (PIFC) CONCEPT

Public Internal Financial Control is a concept developed by the European Commission to help candidate countries improve their management of public resources through the incorporation of higher standards of control into management processes.

Good quality systems of internal financial control will help public sector managers respond to the demands they face in modern operations. Firstly, these include the traditionally well known demands whereby the budgetary resources should be used for their intended purpose and in line with laws and regulations. Secondly, there are demands to ensure economical and efficient use of budgetary resources. Finally, given the turbulent environment in which public sector organisations nowadays operate, the internal financial control systems will enable the organisations to respond to the changing circumstances more quickly and with less difficulty, without necessarily requiring additional budgets to achieve this.

- ***MANAGERIAL ACCOUNTABILITY***

The PIFC concept attaches a great deal of importance to **managers and its accountability**.

Managers make decisions and they should make sure that those decisions are made properly and in the best interests of the public.

The decisions always contain the financial dimension, whether obvious or not, i.e. the implementation of such decisions influences budgetary resources (assuming commitments, spending or collecting budgetary resources).

Managers at all levels need to be aware of the fact that their management, i.e. decision-making entails financial effects, which will be seen sooner or later. They are responsible for such effects and thereby involved in the financial management and control process.

In doing so, it is important that managers have clear objectives and performance indicators set before them to measure the achievement of objectives, including financial parameters.

The lines of authorities and responsibilities must be firmly established, clearly defined, transparent and consistently applied.

The budget user heads are responsible for establishment of an adequate, efficient and effective system of internal financial control. Efficient systems require that clear lines of authorities and responsibilities at all management levels are put in place throughout an organisation. This means that management at higher, middle and lower levels have objectives set for them as well as the responsibility to adhere to laws and regulations, quality standards, and deadlines in achieving them, They should also be required to ensure that budgetary resources are being used economically and efficiently in the process. Management must have adequate powers to allow them to fulfil their responsibilities.

The development of internal financial control systems runs in parallel with the development of lines of authorities and responsibilities. The internal financial control systems provide reasonable assurance to management with assigned authorities and responsibilities that they would successfully achieve the set objectives, using the budgetary resources with economy and efficiency. Through the internal financial control systems put in place, management at higher levels gains insight into how successful the management at lower levels is while performing what was expected from them.

- ***ELEMENTS OF INTERNAL FINANCIAL CONTROL SYSTEM***

The practical implementation of the PIFC concept has three core elements:

- a) financial management and control;
- b) a functionally independent internal audit; and
- c) a Central Harmonisation Unit, an organisational unit within the Ministry of Finance, in charge of harmonising and coordinating the activities concerning the financial management and control and internal auditing system establishment and development.

- a) ***FINANCIAL MANAGEMENT AND CONTROL***

- ***The Notion of Financial Management and Control***

Financial Management and Control may be defined as a system which directs and controls the financial operations of a budget user in such way that it provides support to the achievement of objectives.

Adequate systems of financial management and control may be said to have been established when the managers at all levels plan and organise their operations in a way that provides reasonable assurance that risks are being successfully managed and that budgetary and other resources are being used regularly, ethically, economically, efficiently and effectively while working towards the achievement of objectives.

Financial Management and Control includes managerial accountability for planning, programming, designing financial plans and their execution, accounting and reporting in order to attain the set objectives and ensure the safeguarding of resources against losses, inadequate use and fraud.

Financial Management and Control covers all aspects related to revenues/receipts, expenses/expenditure, tendering procedures and contracting, recovery of unduly or illegally spent budgetary resources, assets and liabilities.

- ***Value-for-Money***

The PIFC concept requires managers to perceive the function of management as “active management of public activities” rather than just acting as a “public administrator”. In practice, this means managing through the application of the “value-for-money” principle.

Value-for-Money is not synonymous to spending in line with the approved budget and the effective regulations, and it does not solely imply to the lowest cost for budgetary resources.

“Value-for-Money” management implies that the rendering of services to citizens and performing other institutional activities should meet the publicly expected quality standards and deadlines, while spending the least possible amount of budgetary funds.

In order for managers to actively manage public activities, it needs to be adequately informed.

Therefore, managers require good quality financial information system built on the solid basis of a sound accounting systems.

Using information on costs and results, this would enable managers to take decisions on adequate resource allocation.

In general, implementation of the value-for-money principle may not be attained without facing certain difficulties. Namely, the value-for-money principle presents a challenge for the managers as they attempt to change the practice of a lack of interest and/or inability to change the expensive, inadequate and inefficient “business as usual” activities and business processes.

To take on such challenge, however, managers require information on business processes and the activities expressed in financial terms (revenues, expenses, costs).

One of the fundamental difficulties standing in the way of implementing the value-for-money concept may be found in a too narrow understanding of accounting, seeing it only as an information provision vehicle to control the budget. However, accounting should be seen in a broader scope: accounting is there to support financial management reforms and should provide support to the development of more dynamic financial management systems.

Insufficient understanding of accounting and its scope is one of the risks with potentially serious consequences for a successful implementation of internal financial controls.

- ***Financial Management and Control Components***

An important feature of financial management and control as per the PIFC concept has to do with a systematic approach and view of controls, whereby the **“classic” control activities represent only one of the public internal financial control system components.**

Indeed, financial management and control systems are founded upon five interrelated internal controls components², including:

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

Implementing financial management and control on the basis of the aforementioned components requires understanding of their meaning and the correlation, as well as of the synergic effect on quality of financial management once the system of controls becomes functional.

For example, in order to put adequate controls in place, one must first and foremost take a view of the environment in which such controls are to be established and make an analysis of the environment.

² These components were determined in line with the INTOSAI Guidelines for Public Internal Control Standards, and are based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission).

The control environment consists of the personal and professional integrity and of the ethical values of staff, their competence, ways of management and management styles.

In taking a view of the control environment, one must also see whether or not the organisation's mission is clearly defined, whether or not there is a vision and a planned approach to operations. This includes the setting of objectives, the existence of strategic and other plans, etc.

While reviewing the control environment, it is also important to review the respective organisational structure, including the way in which authorities and responsibilities have been assigned, the reporting lines, the practices of written rules and procedures, the human factor management policies, etc.

A sound financial management system takes account of all the previously indicated control environment related elements and takes view of their impact.

A professionalized risk management process is another element brought by financial management and control systems of the PIFC concept.

We are all fully aware that risks exist and that they occur in our everyday work. Control mechanisms that we put in place are intended to prevent certain risks from happening, i.e. to minimise their impact.

The question, however, is to what extent the risk management process has been recognised as one of the business processes in our organisation, how is this process running and who is in charge of it. For instance, do we know what three greatest risks are for us at this point in time? And, do we have adequate control mechanisms in place to provide us with reasonable assurance that those three risks are under control?

The purpose of the risk management component is to help answer the questions above. Risk management should be seen as an overall process of identifying, assessing and monitoring risks, taking account of budget user's objectives, and the process of taking the necessary action, especially through the financial management and control system.

A professionalized risk management process may first of all be seen in documenting information on risks, their types, likelihood of them happening and assessment of impact, creating a risk register, establishing a risk reporting system, appointing persons in charge of risk monitoring, developing risk management strategies, etc.

A systematic approach to the establishment of control activities is ensured through taking a view of the control environment which requires the establishment of control activities and through taking account of risks which may potentially be a threat in the control environment.

Control activities represent written rules, procedures and measures put in place to achieve objectives via the mitigation of risks to an acceptable level.

Examples of control activities may include: segregation of duties in terms of authorisation for preparation, processing, recording and executing payments; double signature system; rules ensuring the safeguarding of assets and information; procedures for a complete, accurate, regular and up-to-date recording of all business transactions; rules for documenting all controls, financial decisions exceptions, transactions, etc.

Given the significance of business information for the management and control functions, information and communication are an important component of the system of internal controls.

As the quality of decisions made by managers directly relates to the quality of information serving as the basis for making such decisions, information must be adequate, up-to-date, accurate and available.

This requires efficient communication across the organisation, the development of an adequate management information system, as well as the establishment and development of an efficient, timely and reliable reporting system.

Once established, a financial management and control system requires ongoing monitoring. Monitoring and reviewing the financial management and control system should be conducted to evaluate how adequately it functions and to make sure the system is updated to time. System monitoring and review is achieved through ongoing monitoring, self-assessment and **internal auditing**.

- *b) INTERNAL AUDIT*

Internal audit is one of the key elements of the internal financial control system.

The fact that internal audit is positioned in the monitoring and review component clearly shows that internal auditing is part of a comprehensive internal financial control system in the function of an assessor of its adequacy.

Although a part of the public internal financial control system, internal audit is still functionally independent of the system.

Positioned at the highest organisational level, an internal audit unit organisationally and functionally reports directly to the head of a budget user.

However, **independence of internal audit does not imply its isolation**. It is expected that consultations between internal audit and managers at all levels and budget user heads take place when auditing plans are to be adopted in order for audit activities to cover the areas of priority interest for the top managers, i.e. the budget user head.

Independence of internal audit is an indispensable feature for internal audit to be able to objectively perform its function, i.e. to make an assessment and give assurance as to the adequacy and the effectiveness of the financial management and control system in terms of:

- identification, assessment and management of risk;
- compliance with laws and other regulations;
- reliability and comprehensiveness of financial and other information;
- efficiency, effectiveness and economy of operations;
- safeguarding of assets and information; and
- performance of tasks and achievement of objectives.

The objective of internal audit as a tool in managers' hands should be to add value and improve the operations of the budget user.

- *c) CENTRAL HARMONISATION UNIT*

In addition to Financial Management and Control and Internal Audit, there is the third element in the PIFC concept. This is the **Central Harmonisation Unit**, an organisational section within the Ministry of Finance in charge of coordinating the activities aimed at establishing and developing the public internal financial control system.

In the early stages of the establishment of the public internal financial control system, the role of the Central Harmonisation Unit was to a great extent oriented towards the creation of the legislative and regulatory framework, the work methodology and standards and training of staff.

Now that internal financial control systems are being put in place with budget users, there is a stronger emphasis on the role of the Central Harmonisation Unit as an established systems development coordinator and as an evaluator of their quality.

The coordinating role requires networking with all stakeholders in the development of this system, including budget users, the State Treasury, the State Audit Office, the institutions involved in managing and implementing the EU pre-accession funds (including the National Fund, the Central Financing and Contracting Agency, and the Agency for Auditing the Implementation of EU Programmes System), as well as the Public Internal Financial Control Council.

Furthermore, the Central Harmonisation Unit regularly reports to the Government of the Republic of Croatia on the activities taken towards the development of this system, the results achieved because of such an implementation and on proposals concerning the ways in which the system could be improved with the view to ensuring better quality public sector management.

4. PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM IN THE REPUBLIC OF CROATIA – CURRENT STATE-OF-PLAY

4.1. REGULATORY AND INSTITUTIONAL FRAMEWORK

- *Regulatory Framework*

The core regulation that arranges internal financial controls in the Republic of Croatia is found in the Public Internal Financial Control Law (OG 141/06).

The components of the Public Internal Financial Control system, i.e. Financial Management and Control and Internal Audit are arranged by this Law.

The Law also defines the methodological framework for implementing the internal financial control system. In the area of Financial Management and Control, this framework is founded upon international internal control standards, whereas international internal auditing standards apply in the area of internal auditing.

The Law served as the groundwork for the production of bylaws, including the Budget Users' Internal Audit Rulebook (OG 35/08) and the Public Financial Management and Control Implementation Rulebook (OG 35/08).

The Budget Users' Internal Audit Rulebook also defined criteria to identify which entities were obliged to establish internal audit.

The Public Financial Management and Control Implementation Rulebook prescribes the establishment and implementation of Financial Management and Control, reporting on the establishment and financial management and control quality assurance.

The methodological framework contained in the Public Internal Financial Control Law and the relevant Rulebooks was further elaborated on in the Financial Management and Control Manual and the Internal Auditors' Manual.

The regulatory framework that has been designed also includes the Instruction on the Annual Public Internal Financial Control System Report (Official Gazette, No. 8/07), the Programme for a professional training and taking the examination for the qualification of a certified public internal auditor and the Instruction on the check of knowledge and skills and the passage of the examination for the qualification of a certified public internal auditor passed by the Minister of Finance on 31 March 2007 and the Internal Auditors' Professional Code of Ethics (Official Gazette, No. 18/08).

The existing legislation and bylaws create the foundation for the establishment of this system, make it recognisable and defines the methodology used to maintain the development of the system.

In keeping with further internal financial control system development, the adopted regulations for the upcoming period will require certain amendments in line with the requirements identified in the practice. This firstly pertains to updating the manuals to further develop the methodology, as well as amendments to the rulebooks. These elements are explained in greater detail in the respective financial management and control, i.e. internal auditing chapters.

- ***Institutional Framework***

The main outlines of the institutional framework for the public internal financial control system establishment and development include budget users who are obliged to put the system in place and the Central Harmonisation Unit, an organisational unit within the Ministry of Finance, in charge of coordination of the activities for the establishment and development of the system.

During the previous periods, the Central Harmonisation Unit has invested a greatest deal of effort into the production of legislation and bylaws and the development of professional capacities. This last was especially related to internal auditing, since establishment of internal audit actually entailed the creation of a completely new profession for the budget users in the public sector of the Republic of Croatia.

The existing internal auditors' training programme was organised by the Central Harmonisation Unit. This training programme has trained, approximately 250 internal auditors over the last five years.

Internal audit has been established in all of the line ministries, the extra-budgetary users and all counties and large cities, of which the small number only recently started with the establishment process (internal audit units were put in place and newly appointed staff are in the process of being trained).

The Internal Audit Rulebook obliges of establishment of the internal audit even the smaller budget users in terms of the number of staff and budgetary resources made available to them. Generally, this was not done due to the insufficient resources.

Therefore, in the upcoming period it is necessary to re-examine the criteria for and the manner of establishing internal audit, taking into account of the cost-effectiveness in spending financial resources and the availability of human resource needed to put internal audit in place.

Concerning the financial management and control establishment and development, the budget users have appointed their Financial Management and Control Heads. Most frequently these are State Secretaries in charge of financial affairs or directors of finance directorates.

Some budget users also appointed their Financial Management and Control Coordinators, who assisted in preparing the descriptions of business processes. In the upcoming period, these persons will continue with activities concerning coordination of financial management and control development within the existing finance directorates/sectors.

In its Conclusion of 18 March 2009, the Government of the Republic of Croatia has tasked the central government level budget user heads with assigning the financial management and control establishment and development coordination activities under the remit of the finance and budget units (directorates, sectors, services).

The coordinating role of the existing finance directorates/sectors in further financial management and control development was emphasised by that, which will be especially important to achieve a coordinated development of this system for the purposes of conducting budgetary reform at the level of budget users.

A very small number of budget users established independent financial management and control departments for the purpose of developing financial management and control. These are organisationally separate from the existing finance directorates/sectors/services.

Pursuant to the Government Conclusion dated March 2009 and in relation to the upcoming period, the independent Financial Management and Control departments will be placed under the jurisdiction of the existing finance directorates/sectors.

With regard to the institutional framework, the Public Internal Financial Control Council (PIFC Council) also plays an important role. The Council is an advisory body of the Ministry of Finance, and is responsible for making recommendations for the development of financial management and control and of internal audit. In addition to the Auditor General, representatives from amongst the ministers, representatives of persons in charge of financial management and control and internal auditors, the Council includes newly appointed members, including the Treasurer General, the National Authorising Officer and the Director of the Agency for Auditing the Implementation of EU Programmes System.

The Council is expected to review some outstanding issues related to individual segments of the internal financial control system, give proposals for the improvement of this system and promote best practice. Where the Council deems that there are issues falling under its scope of competence during the course of performing its activities, the Council informs the Government of the Republic of Croatia of such issues with the view of taking adequate actions.

Further development of the internal financial control system will require additional investments in the administrative capacities, mainly in strengthening the coordinative role of the existing finance directorates/sectors, further training and professional development of people in charge of financial management and control and of internal auditors.

Accordingly, there will be a need to analyse the existing training models, which were so far organised under the remit of the Central Harmonisation Unit. These models include basic and additional internal auditors' training, as well as seminars and workshops intended for the people in charge of financial management and control and to consider the possibilities of cooperation with other educational institutions.

4.2. FINANCIAL MANAGEMENT AND CONTROL

The activities concerning the financial management and control establishment and development as per the Public Internal Financial Control Law provisions began in 2007.

Even before the introduction of this system, budget users were developing financial management through procedures and control mechanisms. These were primarily oriented towards achieving legality and regularity in spending budgetary resources.

The introduction of financial management and control as a component of the Public Internal Financial Control system represents a kind of adjustment and development of the existing financial management and control models to ensure the achievement of all sound financial management principles involving legality and regularity and also economy, efficiency and effectiveness.

Budget users developed their own plans of the establishment and development of financial management and control, including the following activities: self-assessment of the five financial management and control components; drafting vision, mission and objectives statements; listing and describing business processes; producing a book of business processes; risk identification and assessment; drafting a Risk Management Strategy; analysis of the existing and needed controls; and adopting a plan for the elimination of internal control weaknesses.

In terms of meeting the requirements of their extensive activities plans, most budget users performed the tasks included until the stage of drafting the book of business processes.

The activities carried out to date for the financial management and control establishment and development have mainly resulted in documenting business processes and the identification of their respective objectives.

Since budget users invested a great deal of effort in these activities, the business processes documentation surfaced as the most significant feature of the financial management and control establishment and development to date, in accordance with the provisions contained in the Public Internal Financial Control Law.

What is missing from the activities conducted so far however, is the linking of objectives and processes with the budgetary resources required to achieve them.

Key processes supporting financial management, e.g. planning, programming, financial plan design, financial plan execution monitoring, accounting records and internal reporting system for the financial management purposes, have still not been elaborated in detail through written internal procedures by most of the budget users.

This also suggests an insufficient linkage between the activities undertaken so far for the financial management and control establishment and development with the budget cycle concerning all of its stages (planning, programming, financial plan design, financial plan execution, execution monitoring and accounting).

The financial management and control establishment and development activities were more oriented towards the controls development rather than towards financial management development.

In doing so, the controls development may be seen in the level of business processes documenting in a way that the activities, the participants and the deadlines were presented according to the regulation which arranges these business processes.. This also demonstrates that controls development has to a considerable extent focused on compliance of the business processes with laws and bylaws providing for them, rather than on ensuring the development of such controls that are in the function of ensuring economy, efficiency and effectiveness in the execution of budgetary resources through the business processes.

In the activities carried out to date, a lesser emphasis also has been placed on the development of financial management in such way that the internal financial control components implementation leads towards having the financial management system spread across an organisation and all stages of the budget cycle.

A large number of budget users still lack an understanding of the fact that financial management should be implemented at all levels of budget users, and that this also requires the provision of such organisational structure to support the effort, along with a clear role assigned to the Finance Directorates to coordinate activities concerning financial management and control, as well as with a clear assignment of authorities and responsibilities among all managers involved in financial management.

Financial management is frequently seen through the lens of the existing finance directorates' roles, which are still more focused on "financial administration" (keeping accounting records of the occurred events), rather than on acting as coordinators of activities aimed at financial management development.

Therefore, there is a narrow perception of financial management through the prism of the existing finance directorate's functions, as financial management is seen as recording the business events in accounting terms. This simultaneously narrows the view of accounting, by seeing it as the function of information provision for the needs of control aimed at finding out whether execution was carried out within the planned amounts rather than using the accounting information for decision-making purposes.

Here is important to point out that financial management does not only fall under the remit of finance directorates/sectors, and that finance directors are not the only ones who are responsible for budgets spread throughout the organisational units and programmes. However, the finance directorates should be the key driver and coordinator of financial management development at budget users' level, which is insufficiently developed within budget users at present.

One of the key objectives of this Strategy therefore is to use the upcoming period for strengthening the roles of finance directorates as coordinators of further financial management and control development and ensuring the development of accounting systems as a basis for good quality financial information systems for financial management purposes.

Since financial management and control should be implemented at all levels of budget users, it is necessary to set clear lines of authority and the responsibility for the achievement of the set objectives and for managing budgetary resources required for their achievement.

However, those responsible for managing budgetary resources are most frequently deemed to be only the officials at the highest central levels, whereas the responsibilities for achieving the objectives are often decentralised to lower managerial levels.

Management of budgetary resources places a greater emphasis on controlling the amount and type of a cost (planned/executed) and to a lesser extent on seeing whether budgetary resources were used economically and efficiently to achieve the objectives.

This becomes even more pronounced in the environment characterised by insufficiently developed internal reporting systems for the financial management needs. This first of all pertains to accounting, which follows the linkages between the objectives and budgetary resources throughout the budget cycle stages and furnishes information to the managerial structure for management purposes.

The reasons for taking such approach to financial management and control greatly stem from the approaches applied to date in the budget system.

Until the end of 2008, the system of the budget and budgetary relations in the public sector of the Republic of Croatia was regulated by the 2003 Budget Act (OG 96/03) which was in force until 1 January 2009.

At the time of the approval of the Budget Act, one of the basic objectives of the fiscal policy was the establishment of the fiscal discipline. Such an approach was supported with a great number of input controls and the “bottom up” approach in the decision making process concerning budgetary allocations.

Although this Budget Act was developed to follow modern programme budgeting principles, the accounting grounded on international accounting standards and measures for ensuring macroeconomic stability, it suffered from a lack of practical implementation of some of the provisions. Its orientation towards input controls and a limited flexibility in managing the budgetary resources remained a main feature in the budget system.

One of the shortcomings in the budget system has been the segregation of strategic planning from the process of budget planning and preparation process.

Budget users developed their own strategic documents and adopted their plans of activities with their own objectives. However, the linkages between the objectives and budgetary resources were missing.

Programme budgeting started in 2003. A very short transition from line-item planning to programme budgeting led to some budget users’ understanding of programme budgeting solely as grouping expenditure into various activities and projects, and then connecting to the programmes.

Given that budget preparation was input oriented, the expected programme implementation results were not taken seriously enough during the budget preparation stage.

Under such conditions, financial management with budget users also placed a greater emphasis to the volume and type of cost against the planned amounts, rather than to controls needed to monitor programme implementation results and their impact to quality, efficiency and effectiveness of public services delivery.

Furthermore, budget users have a large number of programmes, sub-programmes, activities and projects under their remit. Additionally, not all organisational assumptions for a successful programme management were provided in terms of programme leaders, i.e. people in charge of programme monitoring, coordination bodies, etc.

Moreover, internal reporting systems to report on programmes and projects to ensure feedback on their performance were insufficiently developed.

Due to an insufficiently developed information system to cover the execution of budgetary resources by programmes, projects and activities, there has no basis to make an overall assessment of the justification for investments into certain programmes, projects and activities.

The budgetary reforms introduced by the State Treasury System Processes Improvement and Modernization Strategy for the period 2007-2011 and the new Budget Act (OG 87/08) are drivers of significant changes as compared to the budget system in place to date. The orientation is to:

- introduce strategic planning and the definition of strategic objectives and priorities;
- link objectives and budgetary resources;
- develop programme budgeting and performance indicators; and
- attain greater flexibility in budgetary resources management.

The implementation of budgetary reforms at the level of budget users, line ministries and state administration bodies should be associated and coordinated with the activities aimed at strengthening the Public Internal Financial Control system.

A greater degree of flexibility in managing the budgetary resources by the line ministries also requires a greater degree of accountability on their part not only for the level and type of costs but also for the achieved results.

The readiness of the line ministries and other state administration bodies to accept greater accountability is directly dependent on how developed the internal financial control system is.

The budget users carry out self-assessments of the established system of controls for the needs of annual reporting on the public internal financial control system, and the resulting report is supplied to the CHU. In the forthcoming period, the self-assessment questionnaire will require updating and should include questions that will more specifically reflect the quality of the established system of controls. This will be different from the current questions which are in part somewhat general, which makes it difficult to make an assessment of the quality of the established system.

Therefore, further financial management and control development will require improvements in the following:

- awareness of financial management as an integral part of the management process and a system running across the board;
- organisational assumptions for the development of financial management and control, including coordination roles of the existing finance directorates/sectors, and lines of responsibilities for achieving the specified objectives and managing budgetary resources required for their achievement;
- financial management and control in the budget cycle processes (planning, programming, financial plans development, implementation monitoring, accounting records, internal reporting system for financial management needs);
- accounting systems as the basis for better quality financial information systems for the purpose of financial management;
- risk management process;
- models of the quality assessment of financial management and control system.

4.3. INTERNAL AUDIT

Internal audit has been under development since 2004. Internal audit was a new profession for the public sector budget users. In addition to requiring the creation of the necessary foundations (regulations, methodology, capacities), internal audit also requires that the management recognises and uses internal audit as a tool in their hands.

The previous period was marked by the creation of the necessary assumptions (putting internal audit units in place, training staff, adopting the methodology) and the promotion of internal audit to the management.

The managerial acceptance of internal audit and full appreciation of its role and purpose is a development process and involves a kind of mutual relationship between internal audit and the management.

Internal auditors have adopted the prescribed work methodology and in parallel with the growing number of internal auditors, the number of strategic and annual plans and the number of audits conducted has also increased.

In the previous periods, internal auditors were to a greater extent performing compliance audits. Less represented were the more complex systems or performance audits. Because of this fact, managerial expectations might not have been fully met.

There are several reasons for this. Looking at the structure of the audit reports, a large number of them pertained to the initial pilot-audits the auditors were carrying out under their training. As a rule, these were simpler audits.

Where financial management and control is more oriented to controlling compliance of the operations with laws, regulations and the planned budgets rather than to achieving greater economy and efficiency in budget spending, internal auditing is also more focused on compliance.

A smaller number of internal auditors conducted more complex systems audits from the areas of financial management, project management, etc. Through these audits, internal auditors made recommendations indicating the need for further financial management system development. Although these recommendations were accepted, their implementation entails certain changes and requires a longer period to take effect.

Given that internal auditing is a new public sector profession, the capacities of internal auditors are understandably still limited.

The problem of insufficient internal auditing capacities is evident in some budget users, including some line ministries which still have some vacant internal auditors' positions.

In some institutions involved in the implementation of the EU pre-accession programmes, the existing internal auditors' capacities are evidently insufficient to simultaneously meet the need for conducting internal audits in the fields of EU pre-accession funds and the national system. In such circumstances, internal auditors are to a greater extent involved in internal auditing for the purposes of EU pre-accession funds, with lower representation of more complex audits from the national segment.

Of the total number of certified internal auditors, more than a half of them acquired their certifications in the last two or three years. A large number of internal auditors have no experience in the area of financial management, planning, programming and accounting. This indicates a need for further investment in internal auditors' training to develop their competencies, especially for the purpose of conducting more complex audits.

Furthermore, there will be a need for further elaboration of the methodology, production of guidelines, and updating the Internal Auditors' Manual, as necessary.

It is especially important in the development of methodology to follow all changes and updates in the area of international internal auditing standards (IIA) and work towards full alignment with such standards.

Dispersed auditing capacities also appear as a problem, i.e. the situation in which institutions employ 1-2 internal auditors, which creates the problems with team work and insufficient capacities.

The dispersed auditing capacities also appear as a problem, because a large number of small budget users are under obligation of putting internal audit in place. Because of their HR and financial capacities, these most frequently establish one or two job positions.

As internal auditing is a new profession, management in some of the institutions still hasn't fully recognised the benefits internal audit may bring, which is why internal audit in some cases is underused in some cases.

Whether the cooperation between internal audit and the management has missed in the stage of producing strategic and annual plans, it is possible that internal audit has not comprised the areas which are of the priority interest of the management.

The budgetary reforms induced in the State Treasury System Processes Improvement and Modernization Strategy for the period 2007-2011 and in the new Budget Act will require changes in internal audit activities.

In addition to the activities to date, which primarily involved compliance auditing, internal audit will need to focus towards more complex audits in the areas that are about to become priority in the light of the budget reforms currently underway. These areas include strategic planning, programming, performance information system and information on achieving value-for-money. This would require greater cooperation between internal audit and the management and greater cooperation between internal audit and the finance directorates/sectors.

The following developments are essential during the upcoming period for the development of internal audit:

- Strengthening internal auditors' capacities, including:
 - sufficient number of internal auditors to carry out audits for both the national and EU pre-accession funds needs;
 - further investment in internal auditors training;
- Steering the internal auditing activities towards more complex audits in order for internal audit to provide adequate support to the management responsible to achieve the objectives of programmes and value-for-money with limited budget resources;
- Development of cooperation between internal audit and management;
- More efficient use of auditing resources through joint undertakings of internal auditors in auditing business processes common to several or all budget users (horizontal audits) and through joint engagement of internal auditors in auditing the processes running across connected institutions (vertical audits);
- Development of specialist knowledge of internal auditors for auditing in the fields of procurement, IT and capital investment;
- Development of an internal audit quality assessment programme.

5. OBJECTIVES AND MEASURES OF FURTHER INTERNAL FINANCIAL CONTROL DEVELOPMENT

Starting from the current basis in the development of this system and taking into account of budget system developments initiated by the budget reform, as well as the experiences gained from the development of internal financial control system in the pre-accession funds, the Public Internal Financial Control System Development Strategy for the period 2009-2011 has three core objectives:

- to determine further developmental directions for the public internal financial control system in order to achieve its contribution towards **more accountable, transparent and successful management of public resources**, regardless of their sources;
- to support the implementation of budget reforms through the development of internal financial control systems;
- to ensure general consistency of the internal financial control system development for both national and EU resources used through the EU pre-accession funds, while taking into account certain specific requirements.

The achievement of the core Strategy objectives will require a period longer than the one covered by this Strategy. The following section indicates objectives and measures planned for achievement until end-2011 which will ultimately contribute to the achievement of the core Strategy objectives.

The deadlines and competence for the achievement of objectives and measures below are contained in an Action Plan that forms an integral part of this Strategy.

5.1. OBJECTIVES AND MEASURES OF FURTHER FINANCIAL MANAGEMENT AND CONTROL DEVELOPMENT

a) Raising awareness of financial management as an integral part of the management process in the public sector

Financial management is an integral part of management process and a system that pervades through the whole organisation. Financial management does not only fall under the responsibility of Financial Management and Control Champions, i.e. directors of finance directorates (in cases where finance directors are not financial management and control champions at the same time) but also under the responsibility of other organisational managers. Therefore, it is necessary to raise awareness of all stakeholders within the sphere of financial management (financial management and control champions, directors of finance directorates and other managers) concerning the role and responsibility they have in relation with financial management. The financial management and control champions, i.e. the directors of finance directorates, need to be aware of their respective roles regarding the creation of an adequate structure for financial management. An adequate structure implies the involvement of other managers in managing the budget respecting the notions of the assigned authorities and the responsibilities for managing the budgetary resources, efficient and timely budgetary reporting and making sure that costs and revenues are under adequate control covering the whole organisation.

The directors of finance directorates can neither hold the responsibility for budgets distributed to individual organisational units and programmes nor can they be responsible for the attainment of programme results, since this is so because these fall under responsibility of the respective managers in charge.

Those managers at various managerial levels responsible for the activities which fall within their scopes as well as for the implementation of individual programmes, need to develop the awareness of financial accountability and the responsibility for the achievement of the results as the integral parts of their managerial responsibility.

Measures:

- Undertaking research to see how well financial management is understood within the budget users, based on questionnaires developed by the Central Harmonisation Unit.
- Delivering workshops organised by the Central Harmonisation Unit for the financial management and control heads/directors of finance directorates concerning their roles in financial management. The workshops would serve as a forum to discuss the research results.
- Delivering seminars that the Central Harmonisation Unit would organise for the managerial structures at central and local government levels concerning financial management (state secretaries, directors, heads of administrative/city offices).
- Development of managerial accountability guidelines by the Central Harmonisation Unit to explain the roles and the responsibilities of all the financial management stakeholders more thoroughly (including FMC heads, directors and other managers)

b) Strengthening the coordinating role of the finance directorates/sectors in the development of financial management and control

During the previous periods, the role of the existing finance directorates was not specifically accentuated concerning the development of financial management and control . However, they are the key drivers and coordinators of financial management development at budget user level.

The forthcoming period will require further development of the existing finance directorates/sectors, in a way that they undertake the role of a coordinator in the financial management development and provide the support to other managers in financial management development across organisations.

For that purpose, an analysis will be performed to evaluate the current status of finance directorates/sectors, their organisation, tasks and roles they currently have in the area of financial management development. Based on the analysis, detailed measures and activities required to further strengthening of the existing roles of finance directorates/sectors will be identified.

The PIFC Council will provide support to the finance directorates' development. The Council will act within its advisory role in this respect. The Government of Croatia will also support the process by reviewing the proposals for the development of coordinating roles of the finance directorates and make decision on the adoption of measures and activities towards this goal.

The finance directorates need to provide adequate support to other managers in charge of financial management. They will jointly devise the development of ex-ante and ex-post controls within the processes of planning, implementation and monitoring of the use of budgetary resources. If needed, they should initiate the production of internal acts (instructions, rulebooks) to provide for job descriptions, authorities and responsibilities of individual participants in the processes of planning, programme production, programme execution monitoring, financial documents processing, internal reporting on the budget resources implementation and the objectives achieved.

Jointly with other managers, the finance directorates should encourage the development of accounting systems. i.e. they should provide support to managers in devising records on costs and other relevant financial information and on content and structure of internal reports for the needs of timely and efficient financial management.

Furthermore, the finance directorates should be supportive of all other managers that within the area for which they are responsible need to develop systems of internal controls in order to meet the need for better quality financial management .

All this will be taken into account in analysing the current development of existing finance directorates/sectors in order to identify adequate measures to be taken for the purpose of further development and strengthening of their roles.

Measures:

- Delivering the workshops on the role of the finance directorates/sectors organised by the Central Harmonisation Unit, intended for the finance directors and department heads
- Analysis of the current role and the status of the existing finance directorates/sectors (organisation, tasks, their roles in financial management development) to be conducted by the directors of finance directorates on the basis of questionnaires designed by the Central Harmonisation Unit.
- Drafting individual reports on the conducted analysis to serve as the groundwork for the Central Harmonisation Unit's production of a consolidated report on the status of the finance directorates, along with the proposals for reinforcement of their roles.
- Discussion by the PIFC Council on the consolidated report, review of proposals and making recommendations for further strengthening of the finance directorates' roles.
- Production of a proposed Action Plan for the implementation of the recommendations included in the consolidated report and the recommendations made by the PIFC Council, to be designed by a working group comprising representatives of directors of finance directorates.
- PIFC Council's conclusions in relation to the proposed Action Plan and submitting them to the Government of Croatia for review and adoption.
- Decision of the Government of Croatia on the adoption of the Action Plan for strengthening the role of finance directorates.
- Implementation of activities from the Action Plan on strengthening the role of finance directorates/sectors, falling under the responsibility of the budget user heads.
- Reporting on activities taken to strengthen the role of finance directorates will take effect through annual reporting on public internal financial control system for the years of 2010 and 2011.

c) Development of financial management and control in the budget cycle processes (planning, programming, financial plans production, accounting and reporting)

Aimed at developing the planning and programming stages in the budget cycle and putting greater emphasis on achieving objectives and results attained with budget resources invested, the budget reforms introduce some new approaches to budget management for the budget users. They require the linking of strategic and financial plans, the development of programme budgeting through the definition of programme objectives and the development of performance indicators, as well as implementation monitoring. Hence, there will be a need for reinforcing financial management and controls within the processes which are essential to achieve better quality budget resources management. These include planning, programming, financial plan production, financial plan execution, including contracting and procurement, financial plan execution monitoring and the internal reporting systems.

Note that most budget users haven't described these processes when producing their books/maps of business processes. In addition, most budget users do not have their internal procedures providing for these areas.

Within the framework of these processes it is important to assure elaboration of the procedures and jobs descriptions, to define the authorities and responsibilities of stakeholders and to have the ex-ante and ex-post controls developed as well. They provide the audit trails for monitoring the manner in which budget resources are being managed from the stage of planning, through the expression of budget resources needs, to the budget resource execution and monitoring what was achieved (objectives and results) with the allocated budget.

To further develop financial management and control in the processes indicated above, analysis of the current status of the financial management and control will be conducted and identified the areas for improvement.

Acting in its advisory role, the PIFC Council will provide support to the financial management and control development falling under the scope of budget cycle. The Government of Croatia will also support the process by reviewing the proposed financial management and control development path to achieve better quality management of budgetary resources. The Government will also make decision on adopting measures and activities contributing to this end.

The 2007 Financial Management and Control Manual will also be updated to highlight the linkage between financial management and control and the budget cycle.

In doing so, one must take into account the impact of the budget reforms included in the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 and the new Budget Act would have on further financial management and control development.

Measures:

- Updating the existing Financial Management and Control Manual to further highlight the linkage between financial management and control and the budget cycle, as well as the impact budget reforms would have on the financial management development. This would be supported through a programme of workshops.

- Analysis of the existing financial management and control arrangements in the budget cycle processes to be conducted jointly with other managers, and based on the proposed questionnaires to be designed by the Central Harmonisation Unit in collaboration with the State Treasury.
- Production of individual reports on the analysis conducted. These will be prepared by the financial management and control heads and will serve as groundwork for the Central Harmonisation Unit in its preparation of a consolidated report on the status of the budget cycle financial management and control, along with proposals for improvement.
- Discussion by the PIFC Council on the consolidated report, review of proposals and making recommendations for strengthening of financial management and control in budget cycle processes.
- Production of a proposed Action Plan for the implementation of the recommendations included in the consolidated report and the recommendations made by the PIFC Council, to be designed by a working group comprising representatives of directors of financial management and control heads.
- PIFC Council's conclusion in relation to the proposed Action Plan and submission of it to the Government of Croatia for review and adoption.
- Decision of the Government of Croatia on the adoption of the Action Plan for strengthening financial management and control in budget cycle processes.
- Implementation of activities from the Action Plan on strengthening financial management and control in budget cycle processes, falling under the remit of budget user heads.
- Reporting on activities taken to strengthen financial management and control in budget cycle processes will take effect through annual reporting on public internal financial control system for the years of 2010 and 2011

d) Accounting systems development – cost and management accounting

Budget accounting was provided in the Budget Accounting and Chart-of-Accounts Rulebook (OG 27/05, 127/07) and the Financial Reporting Rulebook (OG 27/05, 02/07). Accordingly, accounting systems were established with budget users primarily in the function of financial accounting intended for external reporting purposes.

Financial accounting has the function of ensuring that business events are properly recorded, checking whether or not execution of budget resources was in line with the planned amounts and whether or not payments were approved by authorised persons prior to their execution.

The upcoming period will require the development of accounting systems for the needs of internal reporting, i.e. for financial management purposes. This includes cost and management accounting development.

The development in the budget system aiming at linking objectives-plans-budget resources also requires the development of such accounting records and reporting systems that enable tracking of links between the planning documents and budgetary resources needed for their implementation. This is true for both planning and execution stages. For example, this includes the development of records tracing the link between Procurement Plans and the Financial Plans, records of contracted commitments, etc. These features currently are underdeveloped in some budget users.

Programme budgeting development also requires the production of accounting records and reporting systems to ensure that the necessary information is available for programme management.

This includes information of programme costs, types of cost, places where the costs have occurred, information needed to monitor the indicators established, etc.

Options for the development of cost and management accounting will primarily be analysed in the institutions involved in implementation of PHARE 2006 project “Improvement of Budget Processes”. Experiences gained from pilot institutions will be employed for the development of the accounting systems with other budget users.

The development of cost and management accounting should stand as the foundation for the development of good quality financial information systems with budget users.

Measures:

- Analysis of the accounting systems through a review of the existing accounting records and reporting systems (accounting reports being produced and their users) in pilot institutions involved in the implementation of PHARE 2006 project “Improvement of Budget Processes”.
- Identification of additional accounting records and reports to be established. This will be identified via the cooperation between directors of finance directorates and other directors and sector/service heads and programme leaders in pilot institutions. Furthermore, potential difficulties in the use of accounting statements will be identified as well.
- Production of the Action Plan for the accounting systems development. Based on the conducted analysis, directors of finance directorates will make the Action Plans.
- Production of the Cost Accounting and Management Accounting Development Guidelines by the Central Harmonisation Unit based on the experiences gained from the development of cost and management accounting in pilot institutions.

e) Development process of risk management at the budget users

The risk management process should be systematically developed during the upcoming period. This will entail the identification of risks, the assessment of the probability of occurrence and their impact, the documentation of risk information into risk registers, the appointment of people for risk monitoring and the development of a risk reporting system.

The reforms taking place in the budget system, including the introduction of strategic planning and the definition of strategic objectives, the development of programme budgeting and monitoring the achievement of programme objectives attach greater importance to the risk management process. This process should be developed in parallel, especially in the key processes for the achievement of objectives from strategic plans and programmes.

Measures:

- Issue of Risk management guidelines which will be prepared by Central Harmonisation unit
- Delivering seminars and workshops to be organised by the Central Harmonisation Unit covering risk management.
- Establishing risk registers and appointing persons in charge of risk monitoring with budget users.

- Risk management will be under development in parallel with programme budgeting and performance indicators development in pilot institutions in which the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 is being implemented. The experiences gained in pilot institutions will be conveyed to other budget users via seminars and workshops.

f) Financial management and control system quality assurance model development

Good quality financial management and control systems are a kind of guarantee of budget users' readiness for a successful management of the allocated budget. The Budget Act sets forth the principles and rules the budget users must apply in managing the budget resources.

The implementation of the provisions contained in the Budget Act in practice requires the existence of adequate systems of financial management and control. For that reason, the upcoming period will see the development of financial management and control system quality assurance models in a way that will provide feedback. Feedback from such assessment will show whether or not the established financial management and control systems secured practical implementation of the Budget Act provisions as well as the implementation of objectives and measures from the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011. For example, budget user heads, therefore, should evaluate and ensure that:

- budget resources were used for earmarked purposes, in keeping with the approved budget, no commitments were assumed in excess of the approved budget, no reallocations were made contrary to legal procedure (approval by the Minister of Finance);
- revenues were collected on time and paid to adequate accounts;
- irregularities were recorded and activities were taken to eliminate them for the purpose of improving the work.

The amendments to the Instruction on the Annual Public Internal Financial Control System Report will be made accordingly. Statements on internal financial control system with budget users will also be introduced. Budget user heads will be signing those and delivering them to the Ministry of Finance.

Measures:

- Analysis of the Budget Act and other regulations (the Public Internal Financial Control Law, the Public Procurement Act, etc.) in the context of financial management and control requirement, to be conducted by the Central Harmonisation Unit in collaboration with the State Treasury.
- Improvement of annual reporting on financial management and control through updating questionnaires, development of self-assessment methodology and updating the Instruction on the Annual Public Internal Financial Control System Report.
- Introduction of a statement on internal financial control to be signed by budget user heads and delivered to the Ministry of Finance. The statement will be produced on the basis of the financial management and control system self-assessment.

5.2. OBJECTIVES AND MEASURES OF FURTHER INTERNAL AUDIT DEVELOPMENT

a) Strengthening internal auditors' capacities – the number and competence

Given the demands set before internal audit, including its role in the further financial management and control development and its active role in the EU pre-accession funds system, there will be a need to ensure adequate internal auditors' capacities. Therefore, it will be necessary to ensure an adequate number of internal auditors and their competence. With the view of ensuring a sufficient number of internal auditors, there will be a need to make analysis based on workload stemming from the requirements of potential fields of auditing. To strengthen competency, additional training will be required for the existing internal auditors' capacities through optional modules, workshops and seminars. Furthermore, specialist knowledge and skills required for specialised auditing will need to be developed to cover public procurement, information technology and management of complex projects for example.

Measures:

- Analysis of the necessary number of internal auditors with large budget users (ministries, central state offices and extra-budgetary institutes) on the basis of a workload and vacancies analyses.
- Recruitment of new internal auditors from the existing staffing establishments of budget users until the necessary number of staff is achieved.
- Development of competencies of the existing internal auditors by additional training through optional modules, workshops and seminars dealing with the most up-to-date developments in the budget system and EU pre-accession funds management, to be organised by the Central Harmonisation Unit.
- Development of specialist knowledge for selected groups of internal auditors through topical workshops and specialised training sessions aimed at creating a specialist knowledge pool required to conduct audits in the areas of public procurement, information technologies, complex development projects, etc. Creation of internal auditors' teams trained to carry out specialised audits and contractual definition of the relationship between such teams and institutions in which such audits would be conducted.
- Improving training programme efficiency through redesigning the existing training programme and reducing the duration of mandatory training (from 7 to 5 weeks) and increasing the number of additional/optional modules of shorter duration (two days) focused to the fields of priority interest for internal auditing (EU funds auditing, financial auditing, operational audit, systems audits, audits of programmes and projects).
- Production of the Internal Auditors' Training Plan for the period 2010-2011 to cover both mandatory and additional training.
- Development of the internal audit work methodology by updating the Internal Auditors' Manual and producing annexes to the Manual.

b) Strengthening cooperation between internal audit and managers

In the forthcoming period, there will be a need for the encouragement and development of cooperation between internal audit and the management. The management should recognise the benefits brought by internal audit and be ready to use internal audit as a tool to help improve the operations.

Therefore, it is necessary to keep presenting the role and purpose of internal audit to management, especially the ways in which internal audit may be of assistance to management in conducting budgetary reforms.

Cooperation between internal audit and management should be continually improved during the production of strategic and annual internal audit plans, so that areas to be audited reflect management's priorities.

Measures:

- Delivering presentations to the managers on the role and purpose of internal audit to be organised by the Central Harmonisation Unit in collaboration with internal audit heads. Encourage the presence of internal auditors in the senior staff meetings covering specific topics
- Delivering joint workshops for the management and internal audit on their mutual cooperation.
- Development of strategic and annual internal audit plans in cooperation with management.

c) Steering internal auditing activities towards more complex audits

The activities of internal audit during the previous period were to a greater extent focused on conducting simpler audits, mostly compliance audits. Compliance audits are important and required, and will continue during the upcoming period. However, there will be a need for conducting more complex audits in addition to compliance, including programme and projects performance audits to support management in ensuring economical and efficient use of budgetary resources.

As a priority, the programme and projects performance audits will be carried out in the pilot institutions involved in the implementation of the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011. However, this does not exclude the conducting of these audits with other budget users as well.

Measures:

- Conducting programme and projects performance audits in pilot ministries involved in the programme budgeting and performance indicators development to provide support to the implementation of the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011.
- Delivering performance auditing workshops organised by the Central Harmonisation Unit as preparation for carrying out more complex audits and to exchange experiences after conducting such audits.

d) More efficient use of auditing resources towards the improvement of financial management and control in identical processes spanning across several budget users – horizontal audits

To achieve greater efficiency in the use of the limited auditing resources and because there are a number of identical processes operating in several or almost all budget users, the upcoming period will be used to organise the so-called “horizontal” audits. “Horizontal” audits will involve internal auditors from several budget users for conducting audits of the same processes within their institutions (e.g. strategic planning, accounting systems, subsidies and grants, etc.). The goal is to gain a general overview of the control mechanisms in the processes common or identical to several or all budget users.

Measures:

- Carrying out horizontal audits through the following activities:
 - ✓ identifying processes to be subject to horizontal audits on the basis of information available to the State Treasury on quality of financial management and control in identical processes running with several budget users;
 - ✓ entering into agreements between institution involved (selected budget users and the Ministry of Finance) on conducting horizontal audits and delivering audit reports;
 - ✓ including horizontal auditing of these processes into annual internal audit work plans in the institutions involved;
 - ✓ creating a working group comprising representatives of internal auditors who will jointly with the Central Harmonisation Unit produce the Horizontal Auditing Guidelines;
 - ✓ conducting the audits and drafting individual audit reports to serve as the groundwork for Central Harmonisation Unit’s production of the consolidated report and its delivery to the State Treasury;
 - ✓ production of an Action Plan for taking measures for strengthening the system of internal controls in identical processes. Based on the consolidated report, the State Treasury will design the Action Plan jointly with the budget users involved in horizontal auditing.

e) More efficient use of auditing resources towards the improvement of financial management and control with interrelated public sector institutions – vertical audits

Since some of the budget users are mutually connected in functional terms (e.g. in health, education, justice systems, public enterprises and their competent ministries) and that there are significant transfers of budgetary funds taking place between them, the upcoming period will be used to organise the so-called “vertical” audits. “Vertical” audits will require the involvement of internal auditors from the functionally related budget users in carrying out audits of processes, which lead to flows of resources between the budget users. The goal is to develop a comprehensive view of the established control mechanism for the process as a whole.

Measures:

- Carrying out vertical audits through following activities:
 - ✓ identifying institutions to be involved in vertical audits which will be conducted under the remit of the Central Harmonisation Unit in collaboration with the State Treasury and based on information on mutual budget transfers;
 - ✓ entering into agreements on vertical auditing between the institutions involved, defining the creation of an audit team, the manners in which audit reports are to be submitted, etc.;
 - ✓ including vertical audits in annual internal audit work plans of the institutions involved;
 - ✓ conducting audits and production of audit reports, with a copy set to the State Treasury.

f) Development of the model of internal auditors' work quality assessment

Internal audit quality assurance may come as internal and external assessment. The internal audit unit head carries out internal work quality assessment. In addition to the State Audit Office, the Central Harmonisation Unit also conducts an external quality assessment of the internal audit work with budget users.

For the upcoming period, a model of external quality assurance of internal audit work will need to be developed to be employed by the Central Harmonisation Unit as the basis to conduct the external quality assurance of internal audit work with budget users, in keeping with the competencies stemming from the Public Internal Financial Control Law. Additionally, the internal audit units heads should develop their own quality assurance and improvement programmes for the work of internal audit. The Central Harmonisation Unit will develop a template for this purpose.

Measures:

- Develop a model for external quality assurance of internal audit work on the basis of which the Central Harmonisation Unit will conduct internal audit work quality assurance.
- Production of model for internal quality assurance of internal audit work, i.e. draft of the Program of assurance and improvement of internal auditors' work quality to be drafted by the Central Harmonisation Unit.
- Production of the Program of assurance and improvement of internal auditors' work quality by internal audit unit heads to serve as the foundation for making internal assessment of internal audit work quality.
- These activities will be supported by a programme of workshops.

g) Rational establishment of internal audit at small budget users

The 2008 Budget Users' Internal Audit Rulebook provides criteria whereby budget users need to establish internal audit units. Based on such criteria, internal audit must be put in place even in the smaller budget users in terms of their number of staff and the available budget. Most of them has not done this.

In the forthcoming period it will be necessary to analyze the mutual connections between smaller budget users with some of the big budget users in the sense of competency and the ways of financing.

According to the analysis, the establishment of internal audit will be initiated through the already existing models (agreements, joint internal audit units). Furthermore, options will be explored for carrying out internal audits with small budget users using models introduced by this Strategy. They include the use of specialised audit teams, horizontal and vertical audits. To exercise rational establishment of internal audit, the existing criteria and ways of internal audit establishment will be redefined, as necessary.

Measures:

- Identify small budget users obliged to establish internal audit.
- analyse alternative options for putting internal audit in place employing the existing options (agreements, establishing joint internal audit units, using services rendered by specialised teams and vertical audits), taking account of cost-effectiveness in spending resources and the availability of human capacities.
- Establishing internal audit with small budget users as per model chosen.
- Amendments to the Budget Users' Internal Audit Rulebook if there should be a need to redefine the existing criteria and ways of internal audit establishment.

5.3. OBJECTIVES AND MEASURES OF FURTHER CENTRAL HARMONISATION UNIT DEVELOPMENT

During the previous period, the Central Harmonisation Unit was to a great extent oriented towards the production of regulations and work methodology, the creation of organisational arrangements for the internal financial control system establishment and development, including the organisation and delivery of professional training for internal auditors and people in charge of financial management and control.

In the forthcoming period, the Central Harmonisation Unit will focus on strengthening its coordinating role in the internal financial control system development, defining the new role in the training process and establishing links with the academic community, and the activities of monitoring quality of the internal financial control systems established with budget users.

a) Strengthening the Central Harmonisation Unit's coordinating role

In keeping with further internal financial control system development as envisaged in this Strategy, it is necessary to strengthen the coordinating role of the Central Harmonisation Unit, which includes cooperation with:

- Budget users

To ensure that public internal financial control becomes and remains a central function of budget users, the Central Harmonisation Unit will aim to establish strong and systematic links with budget users at all levels including heads, FMC Champions, Finance Directorates, program managers and internal auditors.

- the State Treasury

For the purpose of coordination between the internal financial control system development and the budget system developments, the Central Harmonisation Unit will closely cooperate with the State Treasury. This mutual cooperation will focus on the development of financial management and control methodology and the development of a quality assurance model to be applied to these systems with budget users. Therefore, the Central Harmonisation Unit and the State Treasury will jointly define questionnaires to make an analysis of the current level of understanding of financial management and control within budget users, jointly define an approach to the development of areas for improvement and take part in conducting horizontal audits. These activities will make the development of financial management and control with budget users supportive of implementing the objectives set forth in the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011.

The Central Harmonisation Unit and the State Treasury will organise joint seminars and workshops on the budget system development and the parallel developments in the internal financial control system. These will be intended for persons in charge of financial management and control and for internal auditors.

- the Public Internal Financial Control Council

The Central Harmonisation Unit will increase operational involvement of the PIFC Council in the internal financial control system development. The PIFC Council will be involved through its provision of advice for the further development of internal financial control based on analyses of the existing conditions and recommendations to the Government of Croatia concerning measures and activities to be taken for further development in the areas of financial management and control and of internal audit.

- the National Fund, the Central Finance and Contracting Agency (CFCA) and the Central State Office for Development Strategy and EU Funds Coordination (CODEF)

In order to take advantage of the experiences gained in the development within the framework of the EU pre-accession funds for the purpose of further development of internal financial control system, the Central Harmonisation Unit will cooperate with the institutions in charge of managing and implementing the EU pre-accession funds (the National Fund, CFCA, CODEF).

The Central Harmonisation Unit will also actively monitor further financial management development in the EU pre-accession funds and will systematically support auditors in conducting their audits in the area of EU pre-accession funds.

The aim is to avoid creating different systems wherever possible, while taking account of certain specific requirements.

- the State Audit Office

Cooperation between the Central Harmonisation Unit and the State Audit Office has occurred from the outset of the establishment of public internal financial control system.

In the previous periods, cooperation with the State Audit Office considerably contributed to the internal financial control system establishment and development with budget users, especially in the internal auditing field.

In the upcoming period, cooperation and exchange of information on the extent to which the internal financial control systems established with budget users contribute to the budget reforms implementation will be especially important, in terms of providing proposals for improvement.

Given that the forthcoming period is expected to bring greater involvement of internal auditors in more complex audits, including systems and performance auditing, joint seminars will be needed between the State Audit Office and internal auditors to exchange their respective experiences in such auditing.

- the Agency for Auditing the Implementation of EU Programmes System

The Central Harmonisation Unit will actively monitor the relationships established between the Agency for Auditing the Implementation of EU Programmes System and internal auditors within the system of the EU pre-accession funds management. The development of cooperation between internal and external audit primarily falls under the scope of the Agency and internal audit. Under its scope and through its coordinating role, the Central Harmonisation Unit will contribute to this cooperation development. This involves EU funds systems auditing work methodology, organising additional training sessions for internal auditors in the area of EU funds auditing.

Based on the internal audit work quality assurance information, there will be a need to improve the areas with identified weaknesses to improve internal audit's work quality. This in turn will contribute to making a better foundation for the development of cooperation between the Agency and internal auditors.

Measures:

- Organising meetings with heads of budget users, persons in charge of financial management and control and with internal auditors, visiting the institutions, delivering presentations, workshops and seminars.
- Coordinating the activities with the State Treasury, the National Fund, CODEF and CFCA on the development of work methodology to cover the areas of financial management and control.
- Organising joint seminars with the State Treasury for persons in charge of financial management and control and internal auditors.
- Topical meetings of the Public Internal Financial Control Council and sending Council's conclusions to the Government of Croatia for adoption.
- Organising joint seminars with the National Fund and CFCA to exchange experiences concerning the EU pre-accession funds financial management and control development.
- Organising joint seminars with the State Audit Office and the Agency for Auditing the Implementation of EU Programmes System

b) Organising professional training in cooperation with the academic community (the Faculty of Economics)

Further development of the overall internal financial control system emphasises the need for further investment in training those people involved in financial management and control and internal auditors. The Central Harmonisation Unit has invested considerable effort in organising professional training to date. To meet the aforementioned need, the Central Harmonisation Unit will jointly with the academic community explore the options to cooperate as well as developing methods for organising professional training in financial management and control and internal auditing for the public sector needs.

The role of the Central Harmonisation Unit, from being a training organiser and deliverer, should now focus to the role of a coordinator in the area of professional training. This includes the definition of training programmes, setting the standards and overseeing the quality with which training is being delivered.

The Central Harmonisation Unit will continue with activities related to organising seminars, workshops and specialised training in financial management and control and internal auditing, and experts from individual fields may be engaged.

Measures:

- In cooperation with the academic community (the Faculty of Economics), the Central Harmonisation Unit will analyse options for cooperation, methods and costs of organising professional training in financial management and control and internal auditing;
- After conducting such analysis, options for entering into a cooperation agreement between the Ministry of Finance and the Faculty of Economics will be considered (defining training programmes, setting standards, participation of trainers from the Ministry of Finance and other institutions, training delivery quality control, etc.);
- Developing syllabi and training programmes with the University
- Delivering financial management and control and internal auditing training organised by the Faculty of Economics and in cooperation with the Ministry of Finance.

c) Monitoring quality of the established internal financial control systems

In the upcoming period, the Central Harmonisation Unit will focus on monitoring the quality of the internal financial control systems established within budget users. The emphasis in quality assessment will be on the extent to which the established systems contribute to the implementation of objectives and measures set out in the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 and ensure the application of the Budget Act provisions. As mentioned before, the Central Harmonisation Unit will cooperate with the State Treasury concerning the internal financial control system quality assurance model. Furthermore, the Central Harmonisation Unit will encourage cooperation between persons in charge of financial management and control and internal auditors from various budget users, in order to exchange information and their respective experiences in the development of the internal financial control system.

Measures:

- Production of the Consolidated Annual Public Internal Financial Control System Report, whereby the Central Harmonisation Unit reports the Government of Croatia on the status of the internal financial control system.
- Periodical assessments of the internal financial control system, as needed.
- Organising workshops to exchange experiences in the development of internal financial control systems with budget users intended for persons in charge of financial management and control and for internal auditors.

d) Strengthening Central Harmonisation Unit's expertise

To further develop the internal financial control system and provide support expected in that regard from the Central Harmonisation Unit, continued activities will take place aimed at strengthening competencies of the CHU staff. The existing capacities will be additionally professionally improved through seminars and courses and the staff will acquire the necessary knowledge from the areas of financial management and control and internal auditing. In addition to core competence from the area of financial management and control, there is a need for an ongoing professional improvement in other skills, including the application of information technology and language skills. Moreover, efforts will be invested in ensuring additional recruitment of professional staff, preferably possessing experience in financial management and control and public internal auditing. The Central Harmonisation Unit will keep working with other national and international institutions for the benefit of exchanging knowledge and experiences.

Expertise of the Central Harmonisation Unit will also be strengthened through ongoing communication and exchange of information with other stakeholders in the system of internal financial control with budget users.

Measures:

- Development of expertise of the existing Central Harmonisation Unit's capacities through seminars and courses
- Recruiting competent civil servants into the Central Harmonisation Unit
- Linking the Central Harmonisation Unit with other institutions and international bodies (Croatian Association of Accountants and Financial Experts, the Croatian Institute of Internal Auditors, the Faculty of Economics, and cooperation with experts through EU pre-accession funds)
- Networking and information exchange system development through websites, brochures, leaflets, etc.

6. MONITORING OF THE STRATEGY IMPLEMENTATION

The Central Harmonisation Unit of the Ministry of Finance will oversee the implementation of the Strategy, i.e. the achievement of the objectives, measures and the activities contained in the Action Plan, which forms an integral part of the Strategy.

The Central Harmonisation Unit will report to the PIFC Council on the activities performed, the results achieved and potential difficulties faced during the course of achieving the objectives and measures, and it will make proposals to eliminate them accordingly. This will be done during the regular PIFC Council meetings taking place three times a year.

The PIFC Council will discuss the reports prepared by the Central Harmonisation Unit and give its advice and opinions before the reports are submitted to the Government of the Republic of Croatia.

Furthermore, the Central Harmonisation Unit will report to the Government of the Republic of Croatia through the Consolidated Annual Public Internal Financial Control System Report. The production of this report is mandatory in accordance with Article 35 of the Croatian Public Internal Financial Control Law.

For the purposes of the Consolidated Annual Public Internal Financial Control System Report, the Budget Users will produce their respective individual public internal financial control system reports. These will serve as a vehicle for reporting on the activities under their remit as per the Action Plan and on the results achieved.

Although the achievement of the objectives, measures and activities contained in the Action Plan as an integral part of the Strategy is first and foremost supportive of budgetary reforms initiated on the basis of the State Treasury System Process Improvement and Modernisation Strategy for the period 2007-2011 and the new Budget Act (Official Gazette, No. 87/08), it is important also to point out that the development of the internal financial control system creates sound preconditions for the achievement of objectives and measures envisaged in the Anti-corruption Strategy (Official Gazette, No. 75/08) and the 2008-2011 State Administration Reform Strategy.

7. CONCLUSION

The internal financial control system establishment and development is a complex and long-lasting process. The activities in this field commenced as early as in 2004 and resulted in the creation of legal regulations and bylaws, the organisational capacities and the actual implementation of the system with budget users.

The establishment of this system is a specific process, as it does not involve the creation of a completely new system of controls which develops in parallel with the existing systems of controls. In a way, the establishment of this system implies embedding its elements into the existing systems of management and control with the aim of its improvement.

In order for the internal financial control system to be truly used for its intended purpose, it has to be fully integrated into the existing public sector management processes.

The current stage in terms of this system development suggests that this has not yet been fully achieved. Specifically, the links between the internal financial control system and the budget system haven't been sufficiently explored.

The initiated budget reforms bring new approaches to budget resources management, developing the planning processes through establishing links between objectives and budgetary resources and the development of programme budgeting, as well as the orientation not only to inputs but also to the results achieved. This creates possibilities for a greater degree of flexibility in managing budgetary resources in order to achieve agreed objectives, while increasing responsibility not only for the amount and type of cost but also for the results achieved.

Moreover, operating in a turbulent environment and the limited availability of budgetary resources implies that public sector organisations need to have efficient systems of internal financial control in place to help them respond to the demands set before them, while ensuring efficient and economical use of budgetary resources.

The internal financial control system, hence, needs to find its rightful place and role within management processes, and especially budget management process, in order to provide adequate support to the implementation of budget reforms and better quality budget management in general.

The most important activities envisaged in this Strategy aimed at further developing the internal financial control system follow the path below:

- raising awareness of financial management as an integral part of management process in general;
- strengthening the roles of the existing finance directorates/sectors for the need of coordinating the financial management and control establishment and development activities and providing support to other sections of managerial structures taking part in financial management;
- development of financial management and control in the budget cycle processes;
- development of cost and management accounting as the foundation for good quality financial information systems needed for financial management purposes;
- development of risk management process;
- strengthening internal audit in terms of its competence and scope of work;
- more efficient use of the existing auditing resources by carrying out horizontal and vertical audits and the creation of specialised auditing teams;
- development of a quality assurance model to be applied for the evaluation of the established internal financial control systems.

Experiences gained in the development of the internal financial control system for managing the EU pre-accession funds can be used of great value for the development of this system for the national needs.

During previous periods, the Central Harmonisation Unit was intensively involved in the creation of the regulatory framework and the prescription of work methodology. In the period to come, CHU will focus more on strengthening its coordinating role, linking the participants in the development of this system, and the development of quality assurance model for the system established.

In doing so, the Central Harmonisation Unit will extensively cooperate with the State Treasury to make sure that approaches to the internal financial control system development and budget system developments are coordinated.

For the purpose of implementing the measures and activities from the Action Plan constituting an integral part of this Strategy, experiences and assistance of international experts will be employed through EU pre-accession projects (IPA 2007, PHARE 2006) and through projects funded from other sources (SIGMA support, MATRA FLEX programmes). Projects have already been approved for some of the activities, and for the other part of the activities new projects will be required.

The Central Harmonisation Unit will also be in charge of monitoring the execution of measures and activities in the Action Plan and will report the Government of the Republic of Croatia on the activities carried out.