

MINISTRY OF FINANCE

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

RULEBOOK

ON PUBLIC FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

I. GENERAL PROVISIONS

Article 1

This Rulebook shall prescribe Financial Management and Control implementation, reporting on such implementation, Financial Management and Control quality assurance and keeping a register of persons in charge of Financial Management and Control implementation.

II. FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

Article 2

(1) Financial Management and Control implementation shall be carried out in accordance with the Financial Management and Control Establishment and Development Plan (hereinafter the Plan), as passed on the basis of the provisions contained in Article 8, paragraph 2 of the Public Internal Financial Control Law (hereinafter the Law).

(2) Implementation shall encompass the establishment of Financial Management and Control and implementation of the planned activities for the establishment and development of Financial Management and Control.

Financial Management and Control Organisation

Article 3

(1) Financial Management and Control organisation shall be effected by the appointment of a Financial Management and Control Head, a Financial Management and Control Coordinator and/or establishment of an organisational unit and establishment of a Financial Management and Control Working Group.

(2) Should Heads of Users of Budget referred to in Article 2 of the Law decide not to appoint a Financial Management and Control Head, he/she shall be under obligation to undertake activities related to the establishment and development of Financial Management and Control.

Article 4

- (1) Financial Management and Control Head shall be responsible for the establishment, development and implementation of Financial Management and Control.
- (2) The person appointed a Financial Management and Control Head should be a User of Budget's employee with knowledge of the entire field of operation and the authority to undertake the necessary activities towards the Financial Management and Control establishment.
- (3) Financial Management and Control Head shall have duties as follows:
- Plan passage and implementation monitoring;
 - Financial Management and Control establishment and development coordination;
 - Presiding over the work of the Financial Management and Control Working Group;
 - Coordinating the activities related to the production of a book (map) of business processes;
 - Risk assessment results review;
 - Assisting the Head in developing a risk management strategy;
 - Passage of and monitoring the implementation of an internal controls weaknesses elimination plan, and other plans for implementation of individual activities from the Plan;
 - Making an annual report on Financial Management and Control;
 - Financial Management and Control progress and status reporting to the User of Budget Head;
 - Providing training necessary for the establishment and development of Financial Management and Control;
 - Cooperating with the Department for Harmonization of Internal Audit and Financial Control of the Ministry of Finance (hereinafter the Central Harmonization Unit), with other Financial Management and Control Heads and with internal audit.

Article 5

- (1) User of Budget Heads may appoint a Financial Management and Control Coordinator who shall take part in operational implementation, coordination, establishment and development of Financial Management and Control.
- (2) Duties of a Financial Management and Control Coordinator shall be as follows:
- Coordinating the establishment and development of Financial Management and Control;
 - Helping the Financial Management and Control Head in producing and amending the Plan;
 - Taking part in and assisting with describing and listing of business processes, establishing and developing procedures;
 - Taking part in and assisting with risk assessment;
 - Taking part in and assisting with establishment of internal controls;
 - Assisting the Financial Management and Control Head in monitoring and assessment of Financial Management and Control;
 - Taking part in the production of Financial Management and Control status and progress reports;
 - Proposing adequate training on Financial Management and Control;
 - Updating documentation regarding the map of business processes and the risk register.

(3) Should a User of Budget Head decide not to appoint a Financial Management and Control Coordinator, coordination tasks shall be performed by a Financial Management and Control Head or another person appointed to perform the coordination tasks.

Article 6

(1) Users of Budget Heads may establish a Financial Management and Control Unit to perform the coordination tasks referred to in Article 5, paragraph 2 of the Rulebook.

(2) Should a User of Budget Head have the need to organize additional forms of ex-ante or ex-post controls, or should they already exist, those may be organized within this organisational unit.

(3) The coordinator shall not be allowed to implement ex-ante and ex-post controls.

Article 7

(1) For the purpose of implementing Financial Management and Control, the User of Budget Head may establish a Financial Management and Control Working Group (hereinafter the Working Group).

(2) The Working Group shall be managed by the respective Financial Management and Control Head.

(3) The Working Group shall provide support to the respective Financial Management and Control Head regarding the Financial Management and Control implementation and development.

(4) The Working Group members should be employees with knowledge of fields of operation of greater importance for accomplishing mission and objectives of the User of Budget.

(5) Duties of the Working Group shall be as follows:

- Reviewing the results of the Financial Management and Control self-assessment and deciding on priority activities to be undertaken;
- Reviewing of and agreeing on viewpoints relative to listing and descriptions of business processes and the book of business processes production;
- Reviewing of and agreeing on viewpoints relative to risk management;
- Reviewing reports on internal control weaknesses;
- Holding regular meetings to discuss progress and problem areas relative to Financial Management and Control.

Activities for Financial Management and Control Implementation

Article 8

(1) Activities needed for Financial Management and Control implementation shall be:

- a) Self-assessing the five Financial Management and Control components, as set forth in the Law;
- b) Issuing vision, mission and objectives statements;

- c) Production of a list of business processes;
- d) Production of business processes description and establishing audit trail;
- e) Production of a book of business processes;
- f) Risk identification and assessment and the production of a risk management strategy;
- g) Analysis of the existing and necessary controls;
- h) Passage of an internal control weaknesses elimination plan.

(2) Users of Budget shall be obliged to establish Financial Management and Control in line with the methodology laid down in the Financial Management and Control Manual.

Self-Assessment of Five Financial Management and Control Components

Article 9

(1) Users of Budget are to assess the adequacy and efficiency of Financial Management and Control.

(2) The self-assessment should encompass the five components (control environment, risk management, control activities, information and communication and monitoring and review) within which Financial Management and Control shall be put in place.

(3) By means of self-assessing the five components of Financial Management and Control, a User of Budget shall identify the present state of the system of internal controls, weaknesses within the system and activities needed to remove the identified weaknesses.

Mission, Vision and Objectives Statements

Article 10

(1) Users of Budget shall express their respective missions and visions, thereby determining the purpose of their existence and setting a long-term direction to their operations.

(2) Based on their vision and mission statements, Users of Budget shall further identify strategic and operational objectives.

(3) Users of Budget shall introduce the mission, vision and objectives statements to their employees.

Production of a List of Business Processes

Article 11

(1) Business processes shall represent a set of interrelated activities whose implementation shall employ a User of Budget's resources and whose ultimate objective shall be to meet the needs and requirements of the taxpayer for services of adequate quality within a given period.

(2) A list of processes shall be an overview of more significant business processes running with a User of Budget. The list of business processes shall also identify activities constituting the processes.

Business Processes Description and Audit Trail Establishment

Article 12

- (1) Description of business processes shall encompass the identification of key process elements, including the following: process name and objective, the owner of the process, main risks, a short process description, the resources necessary to complete the process and titles of procedures by means of which the process shall be carried out.
- (2) A procedure shall present the sequence and the way in which the activities in the process shall be carried out, the responsibilities and deadlines for undertaking certain activities, as well as the documents produced as a result of an activity implementation. The procedure description shall contain a flowchart, activity description, the responsibility for undertaking an activity and the supporting documentation.
- (3) The description of business processes and production of procedures for carrying out the processes shall identify the audit trail as per the provisions set forth in Article 5, item 16 of the Law.
- (4) Employees who shall take part in carrying out a business process should be familiar with the effective business process description and the manner in which it shall be carried out (business process procedure).

Production of a Book of Business Processes

Article 13

- (1) The production of a User of Budget's Book of Business Processes shall result from the listing and describing of business processes.
- (2) The Book shall represent an overview of business processes running within the User of Budget, as well as the manner in which they shall be carried out as described via the production of a procedure.

Risk Identification and Assessment and the Risk Management Strategy Development

Article 14

- (1) Users of Budget are to identify and assess risks. Risk assessment shall encompass the assessment of risk occurrence likelihood and the risk impact assessment. The development of a Risk Register shall result from risk identification and assessment. The Risk Register shall contain an overview of objectives, risks, likelihood of their occurrence and possible consequences, the foreseen measures to address risks and responsible persons which may bear influence to risks.

(2) Based on the Risk Register, the User of Budget Head shall pass a Risk Management Strategy which shall serve to annually update risks which may bear a substantial influence to the overall operations.

Analysis of the Existing and Necessary Controls

Article 15

(1) Having produced the Risk Register and having identified the necessary control activities to address risks, the User of Budget Heads are to determine whether or not the necessary control activities have already been put in place or are they yet to be established.

(2) In addition, the User of Budget Heads may decide to establish an ex-ante control function and an ex-post control function for business processes or transactions exposed to a greater level of risk and/or are of a greater importance for the User of Budget.

(3) The User of Budget Heads may appoint a financial controller to carry out ex-ante controls. Financial controller shall be a person authorized to check legality and regularity of the proposed financial decisions as well as to approve or deny them, taking account of the principles of economy, efficiency and effectiveness.

(4) The User of Budget Heads may appoint persons to carry out ex-post controls. The person in charge of ex-post control shall be a person authorized to check legality and regularity of business events after they had been completed or after the decision had been made. Persons responsible for or involved in carrying out ex-ante control shall not be allowed to perform ex-post control.

Passage of an Internal Controls Weaknesses Elimination Plan

Article 16

(1) Based on the analysis of the existing and needed controls, the Financial Management and Control Head shall propose and the User of Budget Head shall pass an Internal Controls Weaknesses Elimination Plan, which shall foresee actions to be undertaken in order to put in place the necessary, i.e. to eliminate the unnecessary controls.

(2) The Plan shall indicate control activities to eliminate internal controls weaknesses, the persons responsible for establishing the necessary controls, as well as deadlines for the elimination of the weaknesses identified within the system of internal controls.

(3) The implementation of the planned activities dealing with the elimination of internal controls weaknesses is to be regularly monitored, which shall fall under remit of the Financial Management and Control Head and/or the Financial Management and Control Working Group.

III. REPORTING ON THE FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION

Article 17

(1) Users of Budget Head shall report on the functioning, effectiveness and efficiency of Financial Management and Control.

(2) Once a year, the Users of Budget listed hereunder shall be obliged to submit their annual reports to the Ministry of Finance's Central Harmonisation Unit:

- Central State administration bodies;
- Extra-budgetary institutes;
- Counties;
- County Centres;
- City of Zagreb;
- Big towns with population greater than 35.000.

(3) Other Users of Budget shall submit their reports to the Ministry of Finance's Central Harmonisation Unit on the basis of a special instruction thereof.

(4) Users of Budget referred to in paragraph 2 of this Article shall be obliged to supply the Ministry of Finance's Central Harmonisation Unit with their annual reports until 31 January of the current year for the previous year.

(5) The reporting form, content, procedures and deadlines are prescribed in the Instruction on the Production of the Annual Public Internal Financial Control System Report.

IV. FINANCIAL MANAGEMENT AND CONTROL QUALITY ASSURANCE

Article 18

(1) The Ministry of Finance's Central Harmonisation Unit shall perform Financial Management and Control quality assurance towards the achievement of a harmonised establishment of Financial Management and Control in the public sector of the Republic of Croatia.

(2) Quality assurance shall be performed via regular annual and occasional quality assurance of Financial Management and Control.

(3) The regular annual quality assurance shall be performed on the basis of Users of Budget's annual reports on Financial Management and Control.

(4) Occasional quality assurance shall be performed by the Ministry of Finance's Central Harmonisation Unit staff through monitoring of implementation of activities indicated in the Plan.

V. KEEPING THE REGISTER OF PERSONS IN CHARGE OF FINANCIAL MANAGEMENT AND CONTROL

Article 19

(1) The Ministry of Finance's Central Harmonisation Unit shall keep a register of persons in charge of Financial Management and Control.

(2) Users of Budget shall be obliged to supply the Ministry of Finance's Central Harmonisation Unit with decision on the appointment of the Financial Management and Control Heads and Coordinators, as well as with enactments on the establishment of a Financial Management and Control Unit.

VI. TRANSITIONAL AND FINAL PROVISIONS

Article 20

The Ministry of Finance's Central Harmonisation Unit shall pass instructions for the implementation of individual activities and the production of documents relative to the Financial Management and Control establishment and development.

Article 21

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