



SIGMA

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BOSNIA AND HERZEGOVINA
PUBLIC INTERNAL FINANCIAL
CONTROL (PIFC)

ASSESSMENT MAY 2009

1. Summary

1.1 *Main Developments since last year*

The most important activities over the last year, affecting directly or indirectly public internal financial control, have been the preparation of the draft PIFC policy papers (which at the time of this assessment had not been published), the publication of new laws on internal audit, and the formal establishment of the Fiscal Council.

Building on an initiative that had started in 2007, BiH State and the two entities had each been preparing their own PIFC policy paper, while co-operating with each other through a joint working group. The quality and consistency (each with the other two) of the policy papers have yet to be assessed, although financial management does appear to be interpreted in a narrow sense as being only concerned with ensuring that spending is in line with the budget, the laws and regulations, rather than encompassing the achievement of managerial/political objectives in terms of service delivery and performance.

The new laws on internal audit, along with the policy papers, should facilitate the development of PIFC, although in view of other factors, such as the difficult economic/fiscal situation and the shortage of key staff as well as the slow progress in the past, the pace of development may remain limited and is likely to largely depend on the initiative of major donor organisations to exert continued pressure. A CHU has been established in the Republika Srpska (albeit so far with only one person in place). CHUs have not been established at state level or in the Federation, although there is a stated intention to do so. The "Co-ordinating Board of the CHU", which is foreseen in the internal audit laws at state level and in the Federation (but not in the Republika Srpska) to be responsible for harmonising public sector internal audit in the country, has also not been established yet.

A key and potentially major reform in 2008 has been the establishment and operational activity of the Fiscal Council. While this Council is primarily concerned with public expenditure management, if successful it probably will set a tone for co-operation between BiH State and the two entities that will support intergovernmental co-operation on PIFC and related matters.

1.2 *Main Characteristics (strengths and weaknesses)*

The main overall characteristic of BiH is the seeming independent development of technical activity, (with the notable exception of the working of the different supreme audit institutions (SAIs)). This characteristic limits the opportunities for learning, for development and for taking the most economic approaches to solving problems.

A key problem for the introduction of a modern PIFC system lies in the arrangements that currently exist for the management of public expenditure, in particular the lack of delegation of responsibilities within public organisations.

Public internal financial control currently rests upon the controls exercised through the different treasury systems. These systems work well (within limits, the main limit being that they only work well in a stable budget situation) and are being improved. However, this is a very limited application of the concept of public internal financial control. This arrangement neither requires managers to manage expenditure in a manner that delivers objectives and ensures performance standards nor provides for the delegation of responsibilities to service managers, other than to sign off payments according to the requirements of the treasury system.

Consequently, the focus of public internal financial control is on compliance with the cash flow calculations made following approval of the budget and on compliance with administrative rules, rather than on ensuring that expenditure is managed in such a way as to secure the efficient and effective use of resources. While inspection does exist, checking transaction compliance with the law and regulations, nowhere is there a practical recognition of the need for managers to be responsible for obtaining value for money. However, the effectiveness of the treasury systems does mean that once a budget is established and cash flow calculations are made, financial control is rigorous. The

problem, however, especially in the Federation, is that the underpinning budget process is not robust (see the public expenditure management assessment).

Internal audit within budget organisations at state level and in the entities is in a very rudimentary stage of development. Very few internal auditors have been appointed, and those who have, have not received any effective guidance to support their work. Existing units are small, and as there is no effective advice or supervision, the likelihood is that at this point in their development those units are not particularly effective.

Concerns about staffing exist at state level and in the entities, but the more significant of those criticisms have occurred in the Federation, where the civil service recruitment policy does not seem to be working well. Another example is that the state level appears to be having difficulty in recruiting internal auditors. Although there was some evidence of staff shortages in Republika Srpska, these shortages were not as serious, and in 2008 there was a significant increase in public sector employee salaries in the Republic.

1.3 Recommendations for Reform

The effective introduction of PIFC depends on the form of managerial arrangements and on managerial capacity. A lack of delegation and a limited approach to the management of public expenditure (with a concern focused mainly on cash control) inhibit the practical development of PIFC, even though the formalities of PIFC may be set out in legislation. Therefore, a first step in reform should be to develop effective managerial arrangements and then a financial management and control (FMC) structure to accompany those arrangements. Internal audit can only become an effective tool of management in those circumstances.

Each Ministry of Finance should have responsibility for developing co-operation between the different components of BiH in the area of PIFC and identify common areas of interest, including common problems, and seek common approaches and solutions, including improvements to the arrangements for the management of public expenditure and the development of internal audit. The CHUs for BiH State and the Federation should be established as soon as practicable and the CHU for Republika Srpska should be further developed. The co-ordination board for PIFC should be established as soon as possible.

Management training should occur at the same time as the development of FMC and internal audit to ensure that the management understands the role of the manager in PIFC, appreciates the value of internal audit and regards it as a valuable management tool.

Co-operation between Treasuries should be actively promoted and, where appropriate, common solutions should be developed, with a view to securing savings in costs and technical resources.

All three components of BiH should review their employment policies to ensure that those policies secure the recruitment and retention of suitable technical staff.

Information on irregularities should be exchanged and a central record maintained, with arrangements being made for the recovery of lost funds.

2. Legal Framework

In the 2008 assessment it had been reported that the system of public internal financial control (PIFC) in Bosnia and Herzegovina, including internal audit, was covered in all three organic budget laws, but in a very inconsistent manner, as the related provisions of each text seemed to cover different issues and were generally not comparable. However, there is no reason why different systems should apply here, as the foundations and challenges are similar. The establishment of the Fiscal Council should create the opportunity to rationalise some of these organic budget law differences.

Republika Srpska envisages, once the PIFC policy paper is adopted, that a specific FMC law will then be required. Such a specific law is not envisaged for the Federation, and at state level the position is not clear.

Internal audit is governed by specific internal audit laws at state level and in both entities. In Republika Srpska and at state level these laws were published in early 2008 and in the Federation in July 2008.

In all three components of BiH, the Ministries of Finance have central responsibility for further defining applicable PIFC systems and procedures.

Ministries of Finance did develop rulebooks in early 2005 under the authority of the organic budget laws and distributed them to budget-users as guidelines for the introduction of internal control. However, very few institutions have written rules and regulations on internal control, although the publication of the three strategies for the implementation of PIFC should create an impetus for the development of rules and regulations on internal control, as envisaged in those strategies. A persisting feature of the situation throughout BiH is the lack of technical and administrative capacity, and the present economic and financial situation, which affects the Federation in particular, is likely to inhibit developmental activity in PIFC.

At present differences do exist in the application of PIFC. At state level, the Law on Financing the Institutions of Bosnia and Herzegovina of December 2004 does not contain specific prescriptions on internal control as such, although it provides a number of rules that are related to internal control systems. In each budget-user, a finance officer is appointed and made responsible by law “for the establishment and maintenance of adequate systems of management and accounting control over approved budget funds ... as well as for the implementation of audit recommendations” (article 4). This same law also refers to the development of internal audit (article 33).

In the Federation, the Organic Budget Law includes provisions related to internal control. According to article 62, “budget-users have to establish an internal control system by applying international control standards in order to make sure that all of the core activities are performed”, and the Ministry of Finance is requested to provide relevant instructions in that area.

Similarly, the Law on the Budget System of Republika Srpska also contains provisions relating to internal control. These provisions are similarly vague and often difficult to understand, as the text reflects the classical confusion between control, audit and inspection. However, the Ministry of Finance has the leading role. It has produced its own rulebook and has provided instructions to budget-users concerning the establishment of internal control.

Additionally in Republika Srpska, a budget inspection exists in the Ministry of Finance, and the authorities are aware of the possible need to review the functions and methods of this body when PIFC is properly established.

These provisions, while at the time a positive step forward (although they do not always appear to have been implemented in full), and in particular the recognition of the leading role of the Ministry of Finance in this area, are of a vague character and illustrate the weak understanding of the PIFC concept. The recently drafted PIFC strategies represent an opportunity to remedy this, although they appear to continue to take a restricted view of what financial management is about. They focus mainly on the need to ensure that procedural and treasury cash control requirements are met rather than on a broader concept requiring management to make decisions on spending that would ensure the

achievement of the organisation's objectives in the most efficient and effective manner. Such a restricted view of PIFC is appropriate in the short run as PIFC arrangements are developed, but to improve the quality of public expenditure over time, a broader view of what PIFC requires will be essential.

Internal audit laws have been adopted in all three components of BiH. The Law of Internal Audit in the Public Sector of Republika Srpska was adopted in January 2008. At the state level, the Law on Internal Audit of the Institutions of Bosnia and Herzegovina was passed in March 2008. The Law on Internal Audit in the Public Sector of the Federation of Bosnia and Herzegovina was adopted in July 2008.

After the internal audit laws had been drafted, with the support of a World Bank project, a working group of representatives from the Ministries of Finance and from the supreme audit institutions of the three BiH components was commissioned in early 2007 to draft a policy paper for PIFC in order to design and implement a consistent system across Bosnia and Herzegovina and to avoid a too segmented approach. The objective of developing an overall PIFC policy paper for BiH was found to be impossible, as the entities (Federation of BiH and Republika Srpska) each insisted on having their own policy. The production of these policy papers had been at a relatively slow pace initially, but gained momentum as from the end of 2008. At present revised drafts have been produced and are planned to be adopted within the first half of 2009.

The new laws on internal audit, along with the policy papers, will facilitate the development of PIFC. However, in Republika Srpska the new Law on Internal Audit excludes a clause on co-operation, which had been explicit in the draft of that law. Such a clause, which is included in the equivalent laws in the Federation and at state level, provides for the establishment of a "Co-ordinating Board of the CHU", which would be responsible for the harmonisation of all activities in the area of PIFC, including internal audit, across Bosnia and Herzegovina. The exclusion of the clause in the Republika Srpska law occurred because of late changes in the clauses of the other two internal audit laws. The BiH State level and the Federation of BiH (FBiH) had no difficulty with this clause in their legislation. A CHU has been established in Republika Srpska (albeit so far with only one person in place). CHUs have not been established at state level or in the Federation, although there is a stated intention to do so.

The system of public internal financial control (PIFC) in Bosnia and Herzegovina, including internal audit, is covered in all three organic budget laws, but in a very inconsistent manner, as the related provisions of each text seem to cover different issues and are generally not comparable. The efforts of the joint working group responsible for drafting PIFC policy papers should remedy this problem and lead to an adaptation of the legal framework. This will require co-operation between CHUs, and therefore the success of the proposed co-ordinating board will be of vital importance for the long-term success of the PIFC strategies and for the implementation of the internal audit laws passed in 2008.

3. Institutional Framework

The Ministries of Finance are responsible for developing an internal audit policy and for ensuring that internal audit units are created in ministries and other governmental institutions. These reforms have been constantly presented as a priority of the BiH governments but in the past have lacked momentum, due to a lack of funds and capacities.

However, the adoption of the three strategies should change the situation. As a CHU has been established in Republika Srpska, progress is envisaged in establishing a CHU at state level (although no actual appointments of staff have yet occurred), and the Federation has expressed its intention of establishing a CHU, the foundations to underpin the proposed PIFC strategies are being completed. However, while the creation of a CHU is also envisaged for the Federation, in practice the actual development of the CHU does seem to be further back in terms of progress compared with the state level and Republika Srpska, and the financial crisis in the Federation is likely to impede practical progress. (Other inhibiting factors in the Federation are the problems of ensuring that civil service

recruitment procedures, which can be lengthy and result in the appointment of unqualified and inexperienced persons, are addressed and that the working relationships between the cantons and the federal government allow for the effective implementation of PIFC policy.)

Each government is preparing its own PIFC policy paper, and the first step should be to ensure that there is no major difference in principle. Once the PIFC policy papers are approved, the three MoFs should identify common areas of interest, including common problems, and seek common approaches and solutions. CHUs should be established as soon as practicable, and this should be a high priority (recognising that Republika Srpska has already made progress here). Examples of where common approaches would be beneficial would include technical issues, ways of implementing PIFC (in a structure where at present there is generally no delegation of managerial responsibility), training, and effective use of limited resources. This will require co-operation between CHUs. To ensure that co-operation, which is of vital importance for the long-term success of the PIFC strategies, the proposed co-ordinating board should also be established as a matter of priority. The general scarcity of resources and the deteriorating economic situation, which require a focus on obtaining value-for-money, add urgency to the need for these developments.

3.1 Financial Management and Control

BiH State and both entities have each established an effective treasury system, which appears to be working well in controlling expenditure and in ensuring effective cash flow management. These systems are based on a common platform – Oracle – with “real time” links through terminals based in budget-user offices. The system has two functions. One function is that of a cash control system, ensuring that budget-users do not exceed the allocated cash expenditure amounts during the period. The other function is that of a cash management system and associated with this function are daily bank reconciliations.

All of the treasury systems work on the same principles and also seem to have the same problems, including that of links to other systems, and they do not use all of the facilities that are available with Oracle. Thus the budget system in Republika Srpska, which is an Excel-based system, is not linked directly to the treasury system, and data therefore has to be input manually. The same is true of the Federation. This manual operation is slow and risks error. Again, payroll systems do not link up to the treasury system, even though they could. There are also some technical problems with the Oracle software.

Each component of BiH is pursuing its own development of the common system. For example, BiH State is introducing a stocks module and a fixed assets module, as required by the Ministry of Defence. In the Federation, the cantons and municipalities and now the extra-budgetary funds are linked to the system. Most budget-users are connected to the system through terminals, and a security process exists to prevent unauthorised access. The system in the Federation was upgraded in 2005. Consideration has been given to a further upgrade in the Federation, using a development called Hyperion, but this has not proved possible because of its cost (500,000 BAM or 250,000 EUR). The Federation has therefore opted for a simpler system designed to assist with cash flow calculations.

There appears to be no process of formal exchange between the Treasuries of the three components of BiH, although informal exchanges occur, although at this technical level there could be a considerable advantage in establishing such a process.

The introduction and full coverage of the treasury systems should make the occurrence of deficits much more difficult in all three governments, given a stable budget. Monthly budget execution plans are produced by the Ministries of Finance/Treasuries with some degree of consultation with budget-users, the degree varying between the three governments. As a general rule, budget-users cannot deviate from these plans when executing the budget, although in each component negotiations do occur, which facilitate modifications to planned cash flow payments.

While the PIFC arrangements under the budget acts are not very specific, the existence of the treasury systems and the rules relating to those systems mean that at one level there is strong financial control, i.e. cash control. There are specific requirements concerning the officials authorised to access the

system and the authorising procedures that have to be followed. However, in some institutions there is no clear segregation of duties between the various officials in charge of authorising or executing a budget transaction. This situation is partly linked to the general shortage of staff in the public administration at state and entity levels as well as in local governments.

However, the existence of a well functioning treasury system with strong financial controls does not mean that public finances will be well managed, nor does it provide any evidence about the quality of public expenditure, because there is no consistent focus required of management on developing value for money. To achieve these benefits depends on the stability of the budget process (and the regular “rebalancing” that has occurred within the entities suggests that the budget system is not stable) and on how well management exercises its management responsibilities by ensuring that all expenditure, even where authorised by the budget and in accordance with treasury rules, achieves value for money.

Throughout BiH, the treasury system also acts as the accounting system, again resulting in a management focus on controlling expenditure against the budget, with little or no reference to value for money in spending.

Overall, given the high degree of commonality of systems and similar needs in the area of PIFC, the greater the degree of co-operation between BiH State and the entities, the greater the potential gains. Developing mutual areas of training, exchanging information on common system problems, avoiding the elaboration of three solutions where one would do – all of these efforts would have important beneficial effects, especially in a period of economic stress. The drafting of the three PIFC strategies also provides a further opportunity for greater co-operation, since they seem rather consistent.

In none of the three Ministries of Finance was there any reference to the need for the appropriate recording of irregularities and the co-ordination of information. At best these functions were seen as the role of the judicial authorities and the police.

In the area of management of EU funds, Bosnia and Herzegovina is in an early stage of setting up the required systems and procedures for the decentralised implementation system (DIS). The Central Unit for Financing and Contracting was formed in 2006 in the Ministry of Finance and Treasury at state level as a special sector. It is currently staffed with 12 employees. The National Fund (called State Fund in BiH) has been set up, and the Assistant Minister of Treasury was appointed as the National Authorising Officer in 2006. This appointment will have to be renewed, pursuant to the new IPA regulation, by the Competent Accrediting Officer (CAO) as soon as this person is appointed. No Audit Authority has been appointed so far and discussions are ongoing as to its location. The Ministry of Finance and Treasury has requested the SAI/BiH to become or host the Audit Authority. The SAI/BiH has declined this request so far, claiming that reporting to the European Commission and to both the Competent Accrediting Officer and the National Authorising Officer would not be in conformity with the regulations in the Law on Audit of Financial Operations of Institutions of Bosnia and Herzegovina and would affect the independence of the BiH Audit Office (SAI/BiH).

The systems and procedures required for the management and control of EU pre-accession funds, as well as the process for setting them up, could be used in the drafting and implementing of the PIFC policy papers as useful references for the domestic budget.

Whatever progress has been made in financial management and control seems to revolve around developments in the treasury system. While this system has tightened expenditure control against the budget, it has not improved the overall quality of public expenditure management, given the budget rebalancing that has occurred and the need to sharpen the focus on achieving value for money. There are common problems (and opportunities) with the treasury systems of all three components of BiH. Co-operation between Treasuries should be actively promoted and, where appropriate, common solutions should be developed, with a view to securing savings in costs and technical resources. Overall, however, the fundamental need is to improve the quality of the management of public expenditure, strengthen internal control and build internal audit as a complement to the improvements in management.

3.2 *Internal Audit*

In terms of practicalities with regard to internal audit, in the Federation about half of the cantons have established internal audit units, but many of these units are very small and their staff have only received very limited training. A specific internal audit structure was put in place by the Federation's Ministry of Finance as early as 2004, but so far only two internal audit units have been established, including one in the Ministry of Finance. In the Federation, however, internal audit units have been established in a high proportion of state enterprises. Similarly, in Republika Srpska a small number of internal audit units have been established, one of which is in the Ministry of Finance, but no information is available about their operational impact, and given the very recent establishment of an embryonic CHU, they will have received no policy or operational guidance. At the state level, internal auditors have been appointed in the Ministry of Defence and in parliament.

Otherwise, no appointments have been made at state level; recently the BiH State Ministry of Finance advertised for internal auditors but had no response. At best this shows only limited progress in developing internal audit in budget organisations. However, in the Federation, more progress appears to have been made in establishing internal audit in public sector-controlled trading entities, and in the cantons, but not elsewhere. Again, as no CHU has been established, no policy or operational guidance will have been provided. A branch of the Institute of Internal Auditors (IIA) in Sarajevo has provided some training, but it appears to be mainly aimed at internal auditors in public business enterprises and at external auditors of the Federation's State Audit Institution (SAI).

Training appears to be a consistent problem throughout BiH; no systematic arrangements are in place. Short-course training appears to have been very limited and no professional internal audit training is available. Although some courses were provided by the IIA in Sarajevo (and through the Association of Accountants and Auditors of the Republika Srpska), they did not seem to be sufficient to ensure a fully trained cadre of internal auditors. In the Federation, the courses provided by the IIA were not seen by the SAI as necessarily capable of doing so. Attracting officials into internal audit and encouraging them to regard internal audit as a career will be difficult, as there is no experience of internal audit. Therefore, a properly programmed professional training process, coupled with a clear career structure, may facilitate the process of internal audit development.

The SAIs appear to have been promoting the development of internal audit, especially in the Federation. Their own arrangements for co-operation seem to be well developed. This approach of the SAIs is very supportive and indeed they generally seem to regard the development of internal audit as helpful to them.

Given the present financial situation, the amount of resources that the authorities of Bosnia and Herzegovina will be able to dedicate to the setting up of an internal audit system is limited. Furthermore, internal audit will only reach a significant degree of efficiency once there are formalised internal control arrangements that go beyond simply ensuring that the rules associated with operation of the treasury system are effectively followed. The risk that exists, therefore, is that the formal structures for internal audit will be established, but the real utility of internal audit lies in its capacity to support management, and this capacity cannot develop until the reform of the management of public expenditure occurs. Legal form alone does not represent a substantive implementation of PIFC in general or of internal audit in particular.

Earlier proposals for the development of internal audit (arising from a World Bank initiative) resulted in a draft framework text, which incorporated the most demanding standards of a modern internal audit function, while leaving room for the necessary adjustments required by the specific institutional requirements of each component government in Bosnia and Herzegovina. However, internal audit cannot be developed on a purely institutional basis (i.e. according to budget-users) unless an impossible number of internal auditors are recruited and assigned to a large number of budget-users. The newly developed PIFC strategies will need to recognise this problem.

Therefore, although draft PIFC strategies have now been prepared and internal audit laws published, the successful development of internal audit is likely to depend heavily on arrangements being made for the most effective use of internal audit resources, given the financial and personnel realities. This

may mean not expecting each budget-user to establish its own internal audit unit, but instead relying on arrangements to deploy internal audit units that are capable of serving several budget-users. (The PIFC strategies, at least at entity level, are silent regarding either the need for or the methods of developing key internal audit skills, such as IT, procurement and contract audit. To develop these particular audit skills with small and fragmented internal audit units will be impossible.) While the first essential steps are to establish effective internal audit units and to undertake basic audits, in the longer run determining how to develop these more specialist audit skills will be important. Again, this is an area where co-operation between the state level and the entities would be vital.

A further complicating factor in the Federation is the issue of relations between the central entity and the cantons. This factor could affect particularly the effectiveness of the CHU in the promulgation of internal audit policy and operational advice.

Each component government of BiH has similar problems with the development of internal audit. These problems include ways of addressing the present public expenditure managerial arrangements, setting of priorities for development, including the initial strengthening of internal control, as well as technical problems, such as the ways of developing and motivating trained staff, movement of any trained staff into the private sector, lack of technical support (e.g. for the development of specialist audits, such as IT and procurement audit, and the elaboration of internal audit manuals and other documentation), ways of managing internal audit resources so that they can be deployed effectively in small organisations, and ways of developing key specialist skills.

4. Reform Agenda and Capacities

There is an increased understanding in Bosnia and Herzegovina that the introduction of PIFC is necessary, and the recently published PIFC strategies reflect this awareness. However, the severe lack of capacity and the need to address urgent economic problems, especially in the Federation, are likely to hamper any rapid developments. Moreover, it does appear that the driving force to address this need is essentially linked to discussions with donors (not least of all the European Union) and less connected to a deep understanding of the issue as such. (The limited appreciation of the role of financial management as a key component of public expenditure management is evidence of this.)

The development of a PIFC policy is also in line with the conclusions of the Public Administration Reform Policy, which envisaged the production of a single specific policy for PIFC by the middle of 2007 and the adoption of relevant legislation by the end of 2007. This did not happen in the way foreseen. The acceptance of the three draft PIFC policy papers that have been produced instead has been set as a precondition for the provision of technical assistance in this area by the European Union.

However, the principal problem with the introduction of a modern PIFC system is the present lack of proper public service managerial arrangements, including appropriate delegation arrangements within public organisations. Ministers (or other heads of budget organisations) are required to make all decisions and therefore hold all responsibility. As ministers change with changes in the political situation and as ministers are generally not that familiar with administrative procedures or with the need for those procedures, not only may there be difficulty in establishing a momentum for the introduction of PIFC but its relative significance compared to other problems facing ministers may be limited. This problem is apart from the practical difficulties of achieving a functioning PIFC system when all decisions are effectively taken by one person. However, the strategies prepared at state and entity levels do seem to envisage the possibility of some delegation of responsibilities below head of organisation level.

Thus in BiH the only effective manager in public sector organisations is the minister or head of the organisation. Delegation of responsibility is very limited. Fresh thinking about how such organisations are administratively organised and about the scope for delegation is not only desirable in the interests of ensuring the more efficient and effective use of public resources, but is also an essential precondition to the effective implementation of PIFC. This means that the reorganisation and training of management ought to precede (or at least go in parallel with) the development of PIFC. Such training would also serve to help ensure that management understands and appreciates the value

of internal audit as well as the role of the manager in PIFC. A crucial aspect of public financial management is the development of an understanding of and an ability to establish “value-for-money” in public expenditure. The PIFC arrangements should be designed to ensure that there is an appropriate focus on this objective and that the development of budgeting and other accounting arrangements takes this need into account. (This also means that managers should always have “value-for-money” at the forefront of their considerations.)

The support that is provided by the supreme audit institutions (SAIs) to the comparatively well-functioning external audit system makes the flaws in the PIFC system all the more apparent. The SAIs are apparently keen to secure the effective implementation of internal audit. However, the support provided by SAIs does not seem to have been fully mobilised for the development of an adequate internal audit and financial control system.

The effective functioning of the Fiscal Council may create the opportunity for greater co-operation in the area of PIFC, which would be beneficial especially in such areas as training, the development of technical solutions to problems, and the overall use of resources.

Again, greater co-operation in the development of common treasury systems would also be highly beneficial.

All three components of BiH should review their employment policies to ensure that those policies secure the recruitment and retention of suitable technical staff; that training needs’ assessments are carried out to ensure that appropriate and balanced training programmes are put in place; and that appropriate career structures are developed.

An exchange of information on irregularities should be set up and a central record maintained. Appropriate legislation should be developed to allow those responsible for irregularities to be pursued and lost funds recovered.

5. External Assistance

For the time being, very little technical assistance is provided to Bosnia and Herzegovina in this area. At the state level, the EU-supported project aimed at establishing the structures and procedures for the management of EU funds should contain PIFC-related inputs, such as the development of control procedures – and their reflection in written procedures – and the development of audit trails.

The DFID-supported project on public administration reform includes developments in PIFC and internal audit (but these developments seem peripheral to its main objectives), although it could assist indirectly through the general aim of improving public administration.

An EU-financed project of a sizeable magnitude is expected to begin in 2009 and to address PIFC in a consistent and comprehensive way, using the PIFC policy papers as a basis; its main purpose is to help implement in practice the adopted internal audit laws as well as the PIFC strategies. Such a project can only have some chance of success if it takes into account the administrative and managerial structures that exist in BiH and recognises the impact of the present financial/economic difficulties faced by BiH State and both entities in introducing PIFC and internal audit. The success of this project also depends on the identification of an appropriate counterpart in Bosnia and Herzegovina. At this stage it is not clear which institution this would be, although ideally the most appropriate counterpart would be the envisaged co-ordinating board, when (and if) established.