Assessment of public perception of internal auditors in selected local self-governments in Serbia

*Analytical Report*

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# List of Acronyms

**CHU** – Central Harmonization Unit

**FMC** – Financial Management and Control

**IA** – Internal Audit

**LSG** – Local Self-Government

**MoF** – Ministry of Finance

**PIFC** – Public Internal Financial Control

**SAA** – Stabilization and Association Agreement

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# Summary

**Internal audit is an activity whose purpose is to improve an organization's efficiency and effectiveness, through providing advice and recommendations to decision makers.** As such, it is an integral part of the Public Internal Financial Control (PIFC) framework that has the ultimate goal of implementing financial discipline within the public sector. In case of Serbia, implementation of PIFC goes through harmonization with Negotiation Chapter 32 - Financial control. Therefore, In Serbia the internal audit within the LSGs is established relatively recently - However, the latest EU Progress Report (2019) rated Serbia as moderately prepared, especially in sense of PIFC (and consequentially the internal audit) implementation.

**Process of establishing the internal audit within the public sector and local self-governments (LSGs) in Serbia has been begun relatively recently – it became mandatory in 2013**. However, the process of establishing has been rather slow – function of internal audit is established in in only 21 out of 28 towns, and 24 out of 117 municipalities.

**During the early years of establishing the internal audit mechanism in LSGs, it was noticed that the function of internal audit(or) has not been perceived properly.** Prevailingly due to lack of knowledge and information, instead of being recognized as facilitators of efficiency development, auditors were perceived as inspecting watchdogs. That made the first conducted audits in the interviewed LSGs a relatively unpleasant experience for auditees (beneficiaries) and a tedious job for internal auditors. This study was aimed at discovering whether the situation has changed, and at identifying the main drivers.

**Internal audit has come a long way since the beginning of its mandate when it was relatively misunderstood and misperceived.** Most of the initial antagonism is reportedly gone – the quality of cooperation is at an enviable level, disagreements are almost totally absent and IA’s recommendations are adopted at a satisfactory level. Now, internal auditors are perceived as those that can reduce the risk of misuse of public resources and prepare their LSGs for external audits. In principle, the function of internal audit is praised a lot – when in doubt, decision makers can reach out to auditors and seek advice.

**Internal auditors are generally very content with their jobs and they seemingly match the description of *the ideal auditor well*.** The only issue they report often, is the inadequate salary, since the job they perform is rather complex. On the other hand, they do not feel like they lack authority and they do not have a bad relationship with their colleagues (beneficiaries). Auditors and beneficiaries share the same view in terms of what traits should the ideal auditor possess – it should be an expert in the first place, but also a communicative and patient individual with integrity and self-confidence. Moreover, judging by the results from the previous chapters, auditors from the interviewed LSGs surely fit that image.

**Insufficient capacities at several levels, especially insufficient number of internal auditors, are the most significant barrier to realizing the full potential of the internal audit.** Majority of the interviewed internal auditors stressed the need for additional manpower, while some feel that easier and more frequent communication with the CHU would be particularly beneficial. However, the internal audit mechanism in the interviewed LSGs has been relatively recently established and it will take some more time get the whole system up to speed.

**Also, the development of the internal audit in large part depends on further development of financial management and control (FMC) whose implementation is at the early stage in majority of the interviewed LSGs.** Although most LSGs have working groups for FMC implementation, these groups are not always committed or capable enough to bring a required change. Consequentially, the rate at which LSGs submit the FMC reports is still not satisfactory. Nevertheless, we argue that perception and development of internal audit has a close connection with FMC. Also, LSGs with more developed FMC can utilize internal audit better.

**Results and the level of satisfaction with UNDP and RELOF projects should encourage all stakeholders for new ventures.** Further development of the internal audit (and PIFC) requires capacity building at multiple levels. Large majority of internal auditors and representatives of interviewed internal audit beneficiaries assess the UNDP and RELOF projects as extremely useful – trainings, seminars and mentorship programs are all very welcome. This issue requires strategic approach that should also incorporate some innovative solutions alike creating platforms for knowledge sharing and utilizing information technologies to a greater extent.

# Concept of Internal Audit in the EU Perspective

*Internal audit is an activity whose purpose is to improve an organization's efficiency and effectiveness, through providing advice and recommendations to decision makers. As such, it is an integral part of the Public Internal Financial Control (PIFC) framework that has the ultimate goal of implementing financial discipline within the public sector. In case of Serbia, implementation of PIFC goes through harmonization* *with Negotiation Chapter 32 - Financial control. Latest EU Progress Report (2019) rated Serbia as moderately prepared, especially in the case of PIFC (and consequentially the internal audit) implementation.*

## Internal Audit Within Public Internal Financial Control Framework

**Public Internal Financial Control (PIFC) is a concept devised by the EU, aimed at establishing effective and efficient management, control and supervision of public resources.** That means that PIFC consists of sets of measures and procedures for governing public revenues, expenditures assets and liabilities. In other words, PIFC is a tool for implementing financial discipline within the public sector. PIFC should be applied across the entire public sector and include the internal control of financial management of both national and EU funds. Conceptually, PIFC consists of three elements: Financial Management and Control (FMC), Internal Audit (IA) and Central Harmonization Unit (CHU).

In a nutshell[[1]](#footnote-1):

* **Financial management and control** **(FMC)** is a system of policies, procedures and activities established, maintained and regularly updated by the head of the organization, which ensures that the risk management assures (to a reasonable extent) that the goals of the organization will be achieved in a proper, cost-effective, efficient and effective manner.
* **Internal audit** **(IA)** is an activity that provides independent and objective assurance and advisory activity, with the purpose of contributing to the improvement of the organization's efficiency and effectiveness. It assists the organization in achieving its goals, by systematically and meticulously assessing and evaluating risk management, control and management of the entire organization.
* **Central Harmonization Unit (CHU)** performs the role of central harmonization, coordination, monitoring of implementation and review of the financial management and control implementation in the public sector.Thereby, it defines common criteria and standards (in accordance with internationally accepted standards) for establishing and the functioning of the financial management and control system. In other words, it is the main contact point for PIFC implementation.

**However, the final responsibility for the functioning of the internal financial control system in the public sector rests with the executives of public funds users, with the help of other senior executives.** They are formally responsible for establishing and developing an adequate and effective internal control system in their organizations.

## Implementing PIFC in Serbia – More ground has to be covered

Serbia’s pathway towards *good* *governance in the public sector* goes, to the largest extent, through harmonization with the EU acquis, portrayed more or less by all Negotiation Chapters. **Specifically, Negotiation Chapter 32 - Financial control deals with the management of public finances on the principle of decentralized managerial accountability and transparency.** Four sector-specific topics are covered by this Chapter: (1) Public Internal Financial Control (PIFC), (2) External Audit, (3) Protection of the EU’s financial interests and (4) Protection of the euro against counterfeiting. Serbia officially opened this Chapter in December 2015, but has made only sporadic progress since then. The latest Progress Report (2019) graded Serbia as only moderately prepared in this Chapter.

**However, introducing and implementing the PIFC framework, and its internal audit section, proved to be a challenge.** Serbia formally introduced FMC and IA as a set of new institutions for overseeing the management of public finances over a decade ago (in 2008). Implementation of these concepts formally became mandatory after Serbia signed the Stabilization and Association Agreement (SAA) in 2013. Nevertheless, the latest progress report clearly states *that further efforts are needed to address managerial accountability and to strengthen the functioning of internal control and internal audit*. Also, it states that the high-level political support will remain instrumental for implementation of PIFC reforms at all levels - the administration and in state-owned companies. Although it recognizes the efforts made by the Ministry (Adoption of the 2017-2020 PIFC strategy and forming a working group for coordinate and monitor implementation of the PIFC) it emphasizes that further efforts are needed to fully embed this concept into Serbia’s rather centralized public sector and administrative culture. In other words, European Commission gauges the functioning of internal controls framework as generally weak. The similar goes for the functioning of internal audit, as not all institutions that are required to establish an internal audit unit have done so. Additionally, many internal audit units are not yet sufficiently staffed.

**The process of establishing the internal audit within the public sector and local self-governments (LSGs) in Serbia has been begun relatively recently and it has been relatively slow**. Even though the Budget System Law made establishing of the internal audit function obligatory for LSGs back in 2013, the process has not been completed yet. Generally, the process has been rather slow, since the function of internal audit is established in in only 21 out of 28 towns, and 24 out of 117 municipalities (Graph 1).

Graph 1: Presence of IA within all LSGs is still unsatisfactory, but it is much better in towns (two graphs to the right) than in municipalities (two graphs to the left)

# Background, Evaluation Methods and Limitations

*During the early years of establishing the internal audit mechanism in local self-governments (LSGs), it was noticed that the function of internal audit(or) has not been perceived properly. Instead of being recognized as facilitators of efficiency development, auditors were perceived as inspecting watchdogs. This study is aimed at discovering whether the situation has changed, and at identifying the main drivers. The basic tool used for the analysis were direct in-person interviews built on carefully prepared questionnaires. It should be noted, however, that conclusions from this study are not universal to all LSGs in Serbia, but only to those that already have the internal audit mechanism in place. These LSGs also have more developed FMC.*

## Background

The main objective of this study is to find out whether the inadequate (often unfavorable and negative) perception of internal auditors in local self-governments (LSGs) has changed since the beginning of their mandate. The inadequate perception of internal auditors was largely coming from the misunderstanding of their role within the organizations. Instead of being perceived as facilitators of quality assurance, they were perceived as “inspecting watchdogs”, financial inspectors or even spies.[[2]](#footnote-2) There was general lack of trust and support, and the level and quality of cooperation left much to be desired. Therefore, based on the in-depth analysis of the perception of internal auditors in 14 local self-governments[[3]](#footnote-3) (municipalities and towns) this study aims to find out whether the situation has changed over the last few years and what the main drivers were.[[4]](#footnote-4)

This study aims to evaluate the developments in perception of internal auditors by analyzing the relationship among the group of three key stakeholders:

1. Internal auditors themselves, in LSGs from the sample
2. Main users/beneficiaries of internal audit (auditees) from the sampled LSGs – Mayors (or their Deputies), Chiefs of City Administration, Heads of Finance, FMC Coordinators
3. Central Harmonization Unit (CHU) of the Ministry of Finance (MoF)

## Evaluation Methods

In order to create a rich data set and objectively assess recent developments in perception and role of internal auditors, this study employed a mixed approach, combining both quantitative and qualitative research tools. As the topic itself is rather complex and sensitive, besides initial desk research and meeting with the representatives of the CHU, the main tool used for the research was direct in-person interviews, whenever possible. Stakeholders from the LSGs that could not have been visited were interviewed over the phone. For this purpose, detailed questionnaires were developed in cooperation with the CHU and the UNDP.[[5]](#footnote-5)

**UNDP (on behalf of CEVES) sent out the questionnaires, along with invitation letters, in-advance to the sampled LSGs via e-mail**. One or two workdays before the visit, a **follow-up phone-call was made** to arrange the meeting details (exact time, room, etc.). Summary of the conducted interviews (type, date, number of respondents) is presented in Table 1.

Table 1: Type and date of the conducted interviews:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Local self-government: | Type of the interview | Date | No. of interviewed internal auditors | No. of interviewed beneficiaries |
| Kragujevac | In-person | 03.09. | 1 | 1 |
| Aleksinac | In-person | 03.09. | 1 | 2 |
| Niš | In-person | 03.09. | 2 | 2 |
| Vranje | In-person | 04.09. | 1 | 3 |
| Mali Zvornik | In-person | 09.09. | 1 | 1 |
| Valjevo | In-person | 09.09. | 2 | 3 |
| Užice | In-person | 10.09. | 1 | 2 |
| Kruševac | Phone | 10.09. | 1 | 1 |
| Subotica | In-person | 11.09. | 1 | 2 |
| Zrenjanin | In-person | 11.09. | 2 | 3 |
| Loznica | Phone | 12.09. | 1 | 1 |
| Novi Sad | In-person | 13.09. | 2 | 2 |
| Novi Pazar | Phone | 19.09. | 1 | 1 |
| Sjenica | Phone | 26.09. | 1 | 1 |
| Zaječar | N/A | N/A | N/A | N/A |

To ensure the highest level of sincerity possible, **interviews were conducted with each group** (internal auditors and main users/beneficiaries) **separately**. Additionally, to ensure the highest level of accuracy possible, all **interviews were conducted by two interviewers** with considerable understanding of the analyzed topic in question.

## The Questionnaires[[6]](#footnote-6)

The questionnaires were developed by CEVES, in partnership with CHU and UNDP. Preliminary version was created by the CEVES team, and then sent for review to CHU and UNDP. All suggestions were accepted, and the final version of the questionnaires was adopted. Some questions, especially those about the implementation of FMC, were inspired by the standardized questionnaire for PIFC implementation assessment by the CHU.

Questionnaires were designed to provide a variety of both qualitative and quantitative indicators. This means that we used three types of questions: purely quantitative (for example, number of internal auditors), purely qualitative (for example, who has the most benefits from internal audit?) and combined two-step questions. In two-step questions respondents were asked to grade impact/progress/situation in a particular area in the first step, and in the second step, to provide explanation for grading it in such way.

According to above-mentioned methodology, two types of questionnaires were created. Type A is the questionnaire used for interviewing users of internal audit - Mayors (or their Deputies), Chiefs of City Administration, Heads of Finance, Coordinators for FMC. Type B is the questionnaire used for interviewing internal auditors themselves. While the Type A questionnaires have been used to evaluate how the internal auditors are perceived by their most common (and probably the most important) users, the Type B questionnaires were used to evaluate the perception that the internal auditors have about their job (and themselves to some extent).

Questionnaires A and B consist of two parts – General information and Group specific questions. While they share the first part (General information), it is the second part that makes the difference. Both questionnaires were structured as follows:

* **General information part:**
  + **Project participation.** A set of questions aimed at finding out whether certain LSG participated in any project for PIFC capacity building. If it turns out that that LSG participated in some project, the question opens up space for respondents to grade (quantitative) its general impact from several angles and express their opinion or give some suggestions.
  + **Actual capacities of the internal audit.** A set of questions aimed at determining actual capacities in the sense of presence of internal auditors in LSGs. Also, respondents were asked if they thought that existing capacities are adequate, and if not, what made it so.
  + **Quality of Financial Management and Control.** Set of next 10 questions are used to assess to what extent is the FMC present, developed and correctly understood in the LSG. We started from a hypothesis that LSGs with more developed FMC will have better understanding of the role that internal auditors have.
* **Group-specific part:**
  + **Two-sided perception evaluation.** Group-specific set of questions starts from the 13th question on. These sets of questions should help determine potential changes in perception through evaluating multiple cross-cutting and specific areas of internal audit and its applications, on both sides (auditors and beneficiaries).

## Limitations

We made all efforts possible to address potential limitations, by implementing the best practices and identifying valid solutions. However, the most important challenges and limitations of this study should not be ignored:

* **Sample size and randomness.** The sample size is not large enough to draw statistically rigorous conclusions about the whole population of LSGs in Serbia. Moreover, the sample itself is rather biased, since it incorporates only LSGs with the established function of internal audit. It has to be underlined that internal audit is present in only 21 out of 28 towns, and 24 out of 117 municipalities, i.e. in 45 out of 145 LSGs.[[7]](#footnote-7) Therefore, this report gives the feeling about the situation in those LSGs that have the function of internal audit established, rather than about the whole population. For that reason, we have often decided to disclose the names of the LSGs, and provide some specific examples, so that the general tone of the situation in this targeted group can be grasped as accurately as possible.
* **Self-assessment bias**. This type of assessment usually bears some self-assessment bias – especially when the questionnaires are sent in-advance. We have tried to limit this bias as much as possible by asking for context and additional explanations for every assessment that respondents made.
* **Profession or a person?** Users of internal audit were sometimes not able to separate the internal audit *as a profession* from the person conducting it. In other words, their opinion on the internal audit sometimes depended on their opinion on the personal traits of the internal auditor. This problem was alleviated by carefully put set of questions, approaching the same topic from various angles.

**Project participation**. Respondents were often not able to recognize to which extent (or even if) they (or their LSG) have participated in some project. This is particularly true for UNDP trainings and seminars, which are more often identified directly with CHU (MoF). This problem was alleviated by asking additional questions and providing example(s) of UNDP-sponsored seminars/trainings.

# Findings

*Perception of the internal audit largely improved – once perceived as spies and watchdogs, internal auditors are now much closer to receiving the credit they deserve. Education through various seminars and trainings provided by the CHU and other partners played a big role, along with time. There is plenty of evidence to support the claim that the perception is changed for better now – the quality of cooperation is more than satisfactory, disagreements are almost totally absent and auditors’ recommendations are adopted at a satisfactory level. Moreover, apart from salary, internal auditors are very content with their jobs.*

*However, FMC implementation is at an early stage in most of the interviewed LSGs. Any further development will require additional effort and more involvement by all stakeholders, and especially leadership from the top. Also, internal audit still suffers from insufficient capacities at several levels, especially in number of internal auditors.*

## Role and public perception of internal auditors

*Internal audit has come a long way since the beginning of its mandate when it was relatively misunderstood and misperceived. Initially, internal auditors were perceived as faultfinding watchdogs, rather than an important instrument of quality assurance. However, most of the initial antagonism is reportedly gone – the quality of cooperation is at an enviable level, disagreements are almost totally absent and IA’s recommendations are adopted at a satisfactory level. Now, internal auditors are perceived as those that can reduce the risk of misuse of public resources and prepare their LSGs for external audits. In principle, the function of internal audit is praised a lot – when in doubt, decision makers can reach out to auditors and seek advice. Nevertheless, more education is still desirable, particularly in the LSGs where internal audit has been established only recently.*

**Internal audit (IA) in the public sector is a relatively new phenomenon.** Out of the 14 interviewed LSGs, only five have had IA in place for more than five years. In numbers, 9 LSGs (62%) have established IA from 2014 on, and 4 LSGs (29%) since the UNDP project began in 2016 (Graph 2). More importantly, many have come a long way from being a vague and misperceived concept, to almost fully operational and highly valued unit in the organization. Thus, some LSGs, like Zrenjanin and Vranje, have managed to develop and raise operation of their internal audit units to a high level in relatively short amount of time. Some, like Subotica were successful from the outset. But, on the other hand, for some smaller LSGs like Mali Zvornik and particularly Aleksinac, developing of the IA mechanism will require some more time and additional (preferably continual) support.

Graph 2: All 13 LSGs from the sample have established internal audit – 29% since UNDP project began in 2016

**[When was internal audit established?]**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Loznica  Užice  Valjevo | Subotica  Kruševac | Novi Pazar  Novi Sad | Kragujevac  Niš  Sjenica | Zrenjanin | Aleksinac | Vranje  Mali Zvornik |

**The role of internal auditors was not adequately perceived at the beginning of their mandate, but the situation has changed for the better significantly ever since.** At the beginning, internal auditors were predominantly perceived as some form of budget inspection, mayor’s personal informants or inspecting watchdogs in general, whose role was faultfinding and then tipping off to the mayor. Also, internal auditors were often confused with external auditors (State Audit Institution). However, that negative tone changed significantly, when the benefits of IA became apparent. But, needless to say, that process required considerable amount of time and effort.

**First audits conducted in the interviewed LSGs are often described as relatively unpleasant experience for auditees (beneficiaries) and a tedious job for internal auditors:**

* In case of the auditees, the main reasons were simple – lack of trust (or even distrust) and scarce information about something totally new. At the same time, the municipal administration (sometimes even at the higher levels) was not totally aware of role and benefits internal audit could bring. Suddenly, civil servants (that now became auditees) had to face certain control mechanism and change *personally established* procedures that they used for many years (even decades in some cases). Naturally, such process is rarely smooth.
* Auditors on the other hand had a hard time finding a common ground with auditees at the beginning – they had to spend considerable amount of time and make substantial effort to convince auditees that *they play for the same team.*

But, after the auditees received first recommendations, explanations and advice from internal auditors – they began to realize the whole concept of FMC (especially risk) better and felt better prepared for potential external audits. At the same time, internal auditors started gaining necessary trust.

**Understanding of the role and significance of the internal audit is happening, but only gradually.** As the time went on, supported by constant education of beneficiaries, understanding of the concept of internal audit improved. As stated before – time plays a big role. After a few audits and accepted (implemented) recommendations and advice, auditees began to get used to the existence of internal auditors and started to value their presence. Seminars and trainings helped both sides. As beneficiaries (auditees) themselves often say – initial guard and lack of trust came from the lack of knowledge and understanding, and seminars helped them a lot to overcome this handicap. Eventually, several LSGs confirmed that 3 to 5 years is the period required to establish a functional, operational and fully integrated internal audit – that time period also concurs with international practice.

**As the understanding of the concept of internal audit improved, so did the perception.** As benefits of cooperation with internal auditors became apparent, the additional effort civil servants (beneficiaries/auditees) have to make during audits started seeming worthwhile. Along those lines, most of the initial antagonism disappeared.

**Majority of the internal auditors and beneficiaries now evaluate the quality of cooperation as excellent.** As the first proxy for evaluating perception, we use self-estimated quality of cooperation between the auditors and auditees. We assess it by asking both to evaluate (grade from 1 to 5) the quality of cooperation in two points in time – at the beginning and current (as of September 2019). Also, we have asked the respondents to provide context/background for their evaluations, to make sure that the questions were understood and processed correctly. In Graph 3 we can see that the quality of cooperation, led by the above described processes, has taken a huge step forward. Moreover, that perception is mutual – both sides do feel that progress has been made. However, this does not mean that internal audits are now totally pleasant experience for both sides. First, internal auditors in most cases did not have enough time or capacity to conduct audits in all organizational units of their LSG. In other words, not all civil servants have experienced internal audit yet, and they still do not know what to expect. Second, internal audit can hardly be pleasant experience *per se.* Namely, it evaluates somebody’s work and requires additional effort, no matter how benevolent and professional internal auditors are. Nevertheless, professional approach and a high-quality cooperation help to a great extent.

Graph 3: Quality of cooperation has taken a huge leap in almost all LSGs. Furthermore, both auditors and beneficiaries share the opinion!

**[How do you evaluate the overall quality of cooperation with the other group? (1- poor, 5- excellent)]**

**In our sample, Subotica and Zrenjanin seemingly do not fit the picture – cooperation between the two groups was excellent from the outset – but how?** In Subotica, two factors played a major role. First, Subotica had some kind of a precursor to internal audit that we know today, even before introducing the PIFC framework. Second, municipal administration at the highest level worked on introducing and promoting the function of internal audit from the outset, making sure that internal audit’s role within the organization is adequately understood. On the other hand, municipal administration at the highest level at Zrenjanin admitted not to have been aware of the importance of internal audit at the beginning. But nevertheless, they were open for cooperation. Also, internal auditors in Zrenjanin were former colleagues with the beneficiaries, and beneficiaries were convinced in their expertise. Moreover, two reports made by the State Audit Institution in 2016 (when IA had just been established) and 2018 provide a testament to the quality of work of the internal audit, since the latter reportedly came out much more positive.

**On the negative side, in Sjenica hardly any progress has been made and the situation is still far from being acceptable.** A peculiar situation took place in Sjenica. Namely, internal auditor in Sjenica was appointed in 2015, but until the current auditor came in 2018, that function was reportedly only *pro forma.* That could have played a significant role in the rather cold reception that the current auditor got. Internal audit probably has to have undisrupted continuity, in a sense that its credibility must not be compromised. Once lost, it is often hard to get the credibility back. Nevertheless, internal audit is not the only imperfection of the Sjenica’s PIFC, as the situation with the FMC is not any better.

**Good cooperation between auditors and beneficiaries is further illustrated with the almost complete absence of disagreements** (Graph 4). Even when disagreements do occur, they almost always refer to regular everyday work, and are settled in a professional way. Nevertheless, in some LSGs with a recently established internal audit mechanism or underdeveloped FMC auditors still from time to time do have to deal with vanity (like for instance Mali Zvornik or Sjenica) or suspicion of decision-makers (like for instance Niš and, again, Sjenica). However, those are scarce, and can be drawn away through more education about the FMC and internal audit.

Graph 4: Disagreements between auditors and users (auditees) are extremely rare

[How common are potential disagreements with the other group? (1- often, 5- never)]

**Both internal auditors and users of internal audit now agree –internal audit is necessary for effective and efficient functioning of their organizations, since the benefits it delivers are recognized as essential.** By pointing out to work deficiencies internal auditors strive to assess the adequacy of internal acts and correct those that do not satisfy required norms or standards. Therefore, internal auditors are currently often seen as *those who will reduce the risk of misuse of public resources and committing a criminal offence,* and therefore help their LSG prepare for external audits conducted by State Audit Institution or budget inspections. Additionally, internal auditors’ advisory function is generally praised a lot – when in doubt, decision makers can reach out to auditors and seek advice. For all these reasons, all decision makers we interviewed stated that they felt much more confident in their decisions since the internal audit was introduced.

**Majority of our respondents (64%) feel that that the people atop of the administration and other decision makers benefit the most from internal audit (Graph 5).** However, 29% (rightly) recognize that it is the entire organization that benefits. Nevertheless, recognizing the benefits is the first and yet particularly important step, but recognizing that benefits belong to the entire organization, and not necessarily to those who could be held (criminally) responsible, could come with passage of time and more education of civil servants at all levels.

Graph 5: Users reported that mayor and other decision-makers have the most benefits from internal audit?

**Internal auditors are prevailingly content with the rate at which their recommendations are accepted, as the rate is generally very high.** One of the ways for assessing perception and general level of integration of internal auditors in LSGs is the rate at which their recommendations are accepted (implemented). Internal auditor’s recommendation acceptance rate is monitored by the internal auditors and mayors (and indirectly by the CHU through the yearly report, signed by the mayor). Upon completion of the audit, both the auditees and the mayor receive the report with the type of opinion and accompanying recommendations. Moreover, this indicator is probably a bit more objective than self-assessments, as it is based on facts, rather than someone’s opinion. Still, almost all internal auditors are content with the rate[[8]](#footnote-8) - around a half of the interviewed LSG reported the rate to be 80-100%[[9]](#footnote-9) (Graph 6). Additionally, auditors claim that the *actual* *rate* is even higher and that almost all recommendations are accepted and implemented at some point in time. They claim that reported rates are lower because sometimes auditees cannot meet the deadline and need more time than the audit report stipulated. Furthermore, implementing some recommendations occasionally takes more time than necessary because of some slow bureaucratic procedures. For instance, one of the most frequent recommendations refers to the adoption of procedures and instructions for business processes and compliance with regulations, internal controls, adequate accounting procedures and standards etc. Furthermore, the process of implementing procedures and instructions is often not dependent on one organizational unit, and in many cases the act has to be adopted to implement the recommendation. These acts are adopted by either the city council or the assembly, which may take time and make it difficult to meet the stipulated deadline.

Graph 6: Recommendations are generally accepted at the high rate.[[10]](#footnote-10)

[1- the rate between 0 and 20%, (...), 5- the rate between 81 and 100%]

## How does it feel being the internal auditor?

*Internal auditors are generally very content with their jobs. The only issue they report often, is the inadequate salary, since the job they perform is rather complex. Auditors and beneficiaries share the same view in terms of what traits should the ideal auditor possess. Moreover, judging by the results from the previous chapters, auditors from the interviewed LSGs surely fit that image.*

**Internal auditors are generally satisfied with their jobs,** as most of them (86%) reported being either completely (5) or prevailingly satisfied (4) (Graph 7, on the left). By far the most frequently cited reason for evaluating job satisfaction as less than *completely satisfied* (5) is salary (Graph 7, on the right). Namely, auditors generally feel underpaid for the scope of work they are doing. Furthermore, it is particularly good sign that out of all auditors, only one mentioned (bad) relationship with colleagues (beneficiaries). Moreover, lack of authority is not considered as significant problem generally. Other cited reasons coincide with those from the Graph 9 – lack of adequate workspace and equipment.

Graph 7: How satisfied are you with your job (left)? What would be the reasons for dissatisfaction (right)?

Right: [% of internal auditors, 1 – completely dissatisfied, 5 – completely satisfied]

Left: [% of internal auditors, multiple answers can be selected]

**Ideal internal auditorshould be an expert with integrity, full of knowledge and confidence (Graph 8).** All respondents (from both groups - Internal Audit and Internal Audit Beneficiaries) believe that performing the internal audit is a rather complex task which requires knowledge in various fields – regulations, accounting, finance and public administration. They also share the idea of what qualities good internal auditor should possess – there is not much difference between the answers from both groups (Graph 8). Therefore, internal auditor has to be an expert – ambitious individual that strives for knowledge. Also, internal auditor has to have *soft skills -* social skills necessary for everyday contact with colleagues. Namely, auditor should be a self-confident individual, authoritative if necessary, but always receptive, objective and patient. Moreover, judging by the results from the previous chapters, auditors from the interviewed LSGs possess most of these traits.

Graph 8: What are the qualities of the ideal internal auditor?

[Image generated from the auditors’ (left) and the beneficiaries (right) answers/opinion – larger font represents higher frequency of mentioned quality]

 

## FMC implementation in analyzed LSGs

*FMC implementation is at the early stage in large majority of the interviewed LSGs and it will require additional effort. Although most of them have working groups for FMC implementation, these groups are not always committed or capable enough to bring a required change. Consequentially, the rate at which LSGs submit the FMC reports is still not satisfactory. Nevertheless, we argue that perception and development of internal audit has a close connection with FMC. Namely, LSGs with more developed FMC can utilize internal audit better. Desirable situation in LSGs in Vojvodina in one hand, and rather undesirable situation in Sjenica give testament to our claim.*

**Most of the interviewed LSGs have established FMC working groups in some form, but not always at a desired level of quality.**The first step towards implementing FMC is forming a competent, persistent and motivated work group. Almost all LSGs have formed a working group for the FMC, albeit in recent years (Graph 9). It seems that in recent years, activities related to FMC have been taken more seriously. Some municipalities had a formally established working group before, but these were not active. In several of these cases, new working groups have been formed, with more informed, ambitious and enthusiastic FMC heads and coordinators. Nevertheless, this is not the case in all LSGs. Even in some larger LSGs (not to mention some smaller and relatively secluded LSGs) FMC coordinators are in low organizational positions and (or) without sufficient authority and experience to bring change.

Graph 9: Working groups

**Share of the interviewed LSGs that submit the FMC report is not quite satisfactory.** One of the first indicators of FMC existence whether the FMC report is prepared and submited to CHU. Considerable share of the interviewed LSGs does not submit the FMC report (31% - Graph 10). Moreover, neither we, nor our respondents who did submit the report, were able to determine wheter the reports are adequatly compiled. They feel that it is necessary that LSGs receive feedback in some form from the CHU, so that they know which next steps they should take. Also, from the respondents' comments we conclude that it is necessary to define more precisely the level(s) within LSGs at which these reports should be compiled. In other words, obligation of submitting FMC report should be more clearly specified. Furthermore, compiling the report is sometimes too complicated for LSG staff, so more trainings and seminars are necessary, especially in smaller LSGs.

Graph 10: The year when the first FMC report was submitted

**We assess true FMC implementation by assessing its main components (or lack thereof) – map of the work processes, defined corporate goals and risk assessment (including risk management strategy).** In practice, map of the work processes proves to be one of the most important elements of FMC, as it represents the overview of all processes occurring within the organization, therefore providing the best ground for determining corporate goals and conducting risk assessment. Fully developed map of the work processes implies existence of detailed operational instructions for every estimable work process. Nevertheless, development of these maps (with detailed operational instructions), due to their complexity, seemingly represents one of the hardest tasks for LSGs to complete. Corporate goals of the LSGs usually stem from their respective corporate missions, but for the full implementation, these goals have to have a foothold in the map of work processes and a formed circle of accountability. Also, they have to be realistic, time-bound and measurable. Risk assessment is a process of evaluation of potential risks for every estimable work process, so that some possible negative outcomes could be spotted on time. Goal of the risk management strategies (which should be developed upon conducted risk assessment) is to prevent risk materialization to a reasonable extent.

**According to our assessment, FMC is slowly taking root in majority of LSGs – but in some cases there is still a long way to go.** We illustrate the progress in implementing FMC in the Table 2 – FMC can be considered implemented only when all three components are mostly implemented. Table 1 shows that only two out of fifteen LSGs (both from Vojvodina) have implemented all three components. Furthermore, only three have developed a map of the work processes with determined activities, which is, as mentioned, the basis for true implementation of FMC. That probably indicates that in some cases these components have been developed only *pro forma,* without proper understanding of their importance*.* However, it is encouraging that sooner or later most of the LSGs get engaged in the process of true implementation. Nevertheless, smaller LSGs usually have a hard time implementing FMC, since they are more likely to lack sufficient capacities. Also, this table probably provides some additional answers why the developments with internal audit in Sjenica were not at a desirable level.

Table 2: FMC implementation is still at an early stage in most LSGs (Legend: green – mostly implemented, yellow – in the process of implementation/some effort has been made, red – still without significant effort to implement)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Completed map of the work processes with determined activities | Defined corporate goals | Conducted risk assessment and management |
| Novi Sad |  |  |  |
| Subotica |  |  |  |
| Vranje |  |  |  |
| Užice |  |  |  |
| Valjevo |  |  |  |
| Kragujevac |  |  |  |
| Loznica |  |  |  |
| Zrenjanin |  |  |  |
| Niš |  |  |  |
| Novi Pazar |  |  |  |
| Mali Zvornik |  |  |  |
| Kruševac |  |  |  |
| Aleksinac |  |  |  |
| Sjenica |  |  |  |

**Eventually, one of the essential achievements of successfully implemented FMC and IA are more transparent budgetary procedures.** However, some 40% of our respondents are already satisfied with the level of transparency in managing public finance within their respective LSGs (Graph 11). Even when they think that situation could be improved, those improvements are usually small, as the more important elements of transparent budgetary procedures do exist. Generally, respondents from all LSGs stated that they have transparent budgetary procedures that include public consultations before budget adoption and detailed data on budget execution and spending. Some LSGs like Vranje have introduced innovative solutions to involve general public in budgetary procedures more, like budgetary calculator, where citizens can express their preferences by voting for project(s) they value the most. However, despite their transparency, 80% of respondents stress that general public does not display sufficient level of interest - public consultations have often not been visited at satisfactory level.

Graph 11: Could budgetary procedures be more transparent? Many think they cannot.

**[% of respondents; auditors and beneficiaries combined]**

## Projects supporting the development of PIFC

*Results and the level of satisfaction with UNDP and RELOF projects should encourage all stakeholders for new ventures.*

**Reported developments of the internal audit and improvements in perception can be attributed to the diligent work of all stakeholders – MoF and civil servants from LSGs, UNDP, RELOF and other contributors.** Support of UNDP and RELOF came in form of various projects consisting of capacity building within LSGs, mostly through organizing seminars about IA and FMC. However, the dynamics of change in perception varies from one LSG to another and depends on many subjective and objective factors.

**Large majority of internal auditors and representatives of interviewed internal audit beneficiaries assess the UNDP and RELOF projects as extremely useful** for establishing FMC and therefore the development of internal audit.[[11]](#footnote-11) The LSGs that have introduced Internal audit after the year 2015, particularly emphasize the importance of these project. Respondents who have participated in the projects highlight the expertise of the staff of the CHU, find all the knowledge they acquire through seminars and consultations with colleagues from the CHU extremely useful, but there is still a lot of issues that could be solved.

**However, full implementation of FMC and realizing full potential of IA will take some more time and additional effort in most LSGs** we interviewed. Due to the complexity of establishing PIFC framework (it operationally consists of FMC and IA), LSGs will hardly be able to do it on their own. In other words, more projects that tackle the obstacles (and bottlenecks) that LSGs face could be proven necessary.

## Some problems internal auditors still face

*Insufficient capacities at several levels, especially insufficient number of internal auditors, are the most significant barrier to realizing the IA’s full potential. Majority of the interviewed internal auditors stressed the need for additional manpower, while some feel that easier and more frequent communication with the CHU would be particularly beneficial. However, the internal audit mechanism in the interviewed LSGs has been relatively recently established and it will take some more time get the whole system up to speed.*

**Even though internal audit is indeed developing and becoming more accepted and integrated within the LSGs, auditors in some cases feel that their role/unit is still far from realizing its full potential.** Auditors from majority of LSGs feel that their unit could do more – i.e. that their role within their organizations is still below its actual potential (Graph 12). Also, it is important to note that auditors are satisfied with the impact they themselves are making within their organizations, and that the feeling that more can be done refers to the organizational unit.

Graph 12: How far is your internal audit unit far from reaching its full potential?

[1-very far, 5- unit is realizing its full potential]

**As expected, there is a positive correlation of time and realizing full potential.[[12]](#footnote-12)** Opinion how far is a internal unit from reaching the potential is probably a consequence of two effects, although with the opposite signs. First effect – as the time goes by, auditees become more and more acquainted with the process of audit – cooperation is smoother, and auditors become more efficient (i.e. the same number of auditors can conduct more audits in year). Second effect – as the time goes by, awareness and knowledge about the PIFC and importance of internal audit become clearer – i.e. it probably takes some time until even the internal auditors realize what the true potential of internal audit really is. Eventually, in our sample, it seems that the first effect winning over the second, as there is positive correlation (0.69)[[13]](#footnote-13) between years of service of the internal audit and the distance from the potential. Every additional year of service increases evaluation (from the Graph 12) by 0.326 (Graph 13).

Graph 13: The longer the internal audit unit is in operation, the closer it is to realizing its full potential

**[years of service of the internal audit – x axis, level of potential realization – y axis]**

**The most frequently cited barrier standing in a way towards reaching the full potential is the internal capacity – lack of internal auditors.** Internal audit is responsible and a rather difficult job that requires substantial thoroughness. Single audit (of some larger budget user or organizational unit within LSG) can last several months. Furthermore, audits of budget users or organizational units have to be conducted with some continuity – for instance, impact of internal audit will not be nearly the same if the audit of a particular user(s) is conducted every 10, 5 or 2 years. The more frequent audits can occur – the better. Consequentially, such a mission requires appropriate capacities – i.e. big enough team of properly educated auditors in the first place. Having this in mind, it does not come as a surprise that insufficient capacity is the most frequently cited reason barrier standing in a way towards realizing the full potential (Graph 14). Furthermore, even though auditors have evaluated quality of cooperation with beneficiaries as generally particularly good (4.6/5 on average), they do feel that more education and awareness is needed at all levels. Also, they feel that full implementation of PIFC would ensure better and more clearly defined responsibilities – for instance, thorough completing map of business processes with clearly specified procedures. Interestingly, auditors do not generally feel that they lack authority in their organizations – that is certainly an important indicator of their opinion how they are perceived. Among other reasons, auditors that do not have their own premises/offices stated that they would welcome getting these, so they can be more efficient.

Graph 14: Insufficient capacity is by far the most significant barrier for better functioning of internal audits

[% of auditors that who think that listed obstacle is significant]

**The lack of internal auditors is reportedly very large – on average, internal audit units of the interviewed LSGs would welcome doubling in size.** Although internal audit suffers from insufficient capacities at several levels, first – and the most clearly stressed by the internal auditors – is the need for more manpower (Graph 15). Interestingly, larger internal audit units emphasize the need for more auditors more. Generally, those are also LSGs with more developed FMC – suggesting that they probably feel the that they have more responsibility. The majority of auditors reported that the main reason for the insufficient number of internal auditors is prohibition of additional employment by the State. Also, when there is an open space for employing additional auditor(s), LSGs have a hard time finding adequate staff (within LSG) that could be recruited. Reasons for that situation are relatively strict formal conditions for recruitment of internal auditors and rather slow training and licensing procedures by the Central Harmonization Unit (CHU). Namely, every internal auditor has to conduct mentor-guided audit to obtain a necessary license. **Yet, there are only two available mentors for the whole Serbia** and the process itself can take several months. For example, the auditor from Aleksinac has been waiting for more than two years for her mentor-guided audit (and a license).

Graph 15: Internal audit units in LSGs would welcome reinforcements

**[What is current and what is optimal number of internal auditors within your organization?]**

**Reportedly, insufficient capacity of the CHU sometimes reflects to the internal auditors.** Besides at times rather slow process of obtaining a license, internal auditors generally feel that the communication with the CHU should be easier and more frequent. Respondents sometimes complain that the information they receive from the CHU are occasionally insufficient or incomplete instructions given either to auditors or other civil servants[[14]](#footnote-14). For instance, one of the first obstacles that LSGs face when establishing the function of the internal audit is finding the adequate administrative modality for new jobs. Majority of interviewed LSGs have organizational unit for internal audit, but employment contract of Head of the internal audit remains an open issue - in some cases the head of the internal audit is a nominated person and in some cases an employee with regular employment contract. In interviewed LSGs where IA organization unit is not established, internal auditors are employees who report to the Chief of City Administration, which is a rather problematic situation, since the same person is practically the employer and the *key* auditee at the same time. Also, some LSGs face insufficient number of experienced and ambitious executives and other civil servants that would show more enthusiasm for trainings and seminars (especial at the higher level).

# Conclusions and Recommendations

*Initial misperception of internal auditors is not a necessary occurrence and, it, by relying on best practice, can be alleviated in the LSGs that are about to establish the internal audit. Moreover, further development of the internal audit (and PIFC) requires capacity building at multiple levels. This issue requires strategic approach that should incorporate some innovative solutions and creating platforms for knowledge sharing.*

**This report delivers a valuable lesson for further internal audit development – misperception (and any form of antagonism) of the IA is not a necessary occurrence**. Misperception comes as consequence of lack of knowledge, information and leadership atop of the organizations. Therefore, the first step towards implementing the IA within LSGs is motivating and educating civil servants about its importance and benefits. Also, parallel development of FMC is *conditio sine qua non* for successful development of the IA - one without the other makes no sense. Furthermore, the development mechanism for FMC, in a sense of providing knowledge, leadership and information is largely the same. LSGs that managed to incorporate these conditions have had apparent success, like for example Subotica or Novi Sad (or “*the* *emerging”* Zrenjanin)*.* A way less desirable alternative is a situation in Sjenica, where the antagonism is not entirely cured, and FMC remains underdeveloped.These conclusions could be especially important for those LSGs that are yet to introduce the function of internal audit – and these are many. According to the 2018 MoF report – only 45 out of 145 LSGs (24 out of 117 municipalities and 21 out of 28 towns) have established the function of internal audit.

**However, it seems that the whole PIFC framework requires more capacities than that is currently available.** Auditors and beneficiaries both agree that more information and education at all levels is necessary, even in LSGs with relatively developed IA and FMC. Auditors especially emphasize the need form more manpower, but they also point out that more frequent communication with the CHU would be welcome.

**Required capacity building, as we see it, should consist of several pieces:**

1. **Internal Audit units lack additional auditors**. Both the auditors and the EU Progress Report (2019) recognize that internal audit units are not yet sufficiently staffed. Specifically, the auditors reported that their units should double in size in order to reach full potential. However, it should probably be ensured that any increase in the number of employed internal auditors is conducted according to some objective benchmark.
2. **Central Harmonization Unit also lacks capacity**. Internal auditors especially emphasize and praise the expertise of the employees of the Central Harmonization Unit and find all the knowledge they acquire through seminars and consultations with colleagues from the Central Harmonization Unit extremely useful. However, at the same time, both the auditors and users sometimes find it hard to get in touch with CHU staff, since they are generally very busy. Moreover, there are only two internal audit mentors for the whole territory of Serbia, which makes some internal auditors wait considerable amount of time to receive training and obtain the license.
3. **More trainings and seminars for LSG employees at all levels.** Although substantial progress has been made in improving the perception of the internal auditors, that is still not enough. One in two auditors still feel that municipal leadership is not fully aware of all the benefits of internal audit and FMC. Zrenjanin represents a good example how similar situations can be fixed – CHU held a five-day training that *opened their eyes.* Additionally, these trainings should be made available to all LSGs, especially those with smaller budgets.
4. **Innovative solutions.** Function of internal audit (and PIFC in general) could benefit a lot from information technologies. For example, software for developing a map of business processes exists, but it is reportedly too expensive to be implemented and financed by the LSGs on their own.
5. **Network of Internal Auditors.** Since the job of internal auditors is reportedly (and objectively) complex, internal auditors could benefit a lot from such a network that could serve as platform for knowledge exchange. For example, internal auditors form Novi Sad (those from the LSG and those from state-owned enterprises) established an informal group with similar purpose. It reportedly functions very well.
6. **Adoption of the Law on Internal Auditors**. Internal audit is currently regulated by by-laws that are still unclear and unprecise, for instance in terms of defining working contracts of internal auditors. Besides dealing with these issues, the law would emphasize the importance of auditors and clearly define their position.

# Annex 1 – Questionnaires



**Assessment of public perception of internal auditors in the local-self-governments in Serbia**

Questionnaire A - Internal Audit Beneficiaries***: Mayors (or their Deputies), Heads of Finance, Coordinators for FMC***

***General information:***

1. Has your LSG participated in any of the Project for the Public sector internal financial control (PIFC) capacity building (UNDP (SDC) / RELOF)?
   1. From when to when?

b. Evaluate the overall contribution of the Project to capacity building for PIFC I implementation (1- weak, 5- very significant)

c. How much the Project has changed the way public finances are managed in your LSG (1 - completely changed for the worse, 3 - not significantly changed, 5 - completely changed for the better)

d. Evaluate the overall contribution of the Project to narrowing the space for corruption (1- insignificant, 5- very significant)

e. Rate the overall contribution of the Project to capacity building of the Internal Audit (1- insignificant, 5- very significant)

1. Does your LSG have an internal audit unit (in accordance with IIA Rule)?

a. If there is:

i. When was the internal audit established?

ii. How many positions are there in internal audit unit per systematization?

iii. Do you think that number is optimal?

iv. How many positions are filled?

v. What is the main reason for any difficulties in filling the required positions as an internal auditor?

vi. Has the number of employees of internal auditors changed in the last couple of years?

b. If not - provide main reason(s)

3. Does your local government submit to the Ministry of Finance a completed FMC report?

a. When did you submit your first completed FMC Report?

4. Has a working group for the introduction and development of the FMC system been established? (When?)

5. Does your organization have defined business goals in writing?

a. Are the goals concrete, measurable, achievable and time-bound?

b. Give examples of some key (general) goals?

c. Is the implementation of the business goals monitored?

6. Has a Risk Assessment been carried out? (when)

7. Has a Risk Management Strategy been adopted? (when)

8. What are the key identified risks? (description in brief)

9. Has a map of business processes been drawn up in your local government?

a. Are there clear operating instructions for business processes?

b. Do these instructions contain descriptions of control mechanisms (internal controls)?

10. Is your organization required to report regularly on risk management, internal control and internal audit?

11. Do you consider the processes of risk management, internal control and internal audit to be useful for achieving the objectives?

12. Do you think that the process of managing public finances within your organization could be more transparent to citizens?

a. If not, why not?

b. If yes, in which segments?

***Group-specific questions:***

13. Do you believe that an Internal audit is necessary for the effective and efficient functioning of your LSG? (why - main reasons)

14. How do you evaluate the quality of work of internal auditors in your organization? (1- poor, 5- excellent)

15. How do you assess the benefits of working with internal auditors?

a. Collaboration with internal auditors brings no benefits

b. The benefits of cooperation do not solve the essential problems (transparency, proper and expedient use of funds…), but are bureaucratic in nature

c. Collaboration with internal auditors brings concrete benefits (substantive and procedural)

16. Who in your organization has the greatest benefits from internal audit (what function, why)?

17. Are you more confident in the quality of the decisions you / your organization make since they can be audited by internal audit?

18. How working with internal auditors affects the work effort you put in?

a. Collaboration with internal auditors significantly increases work effort

b. Collaboration with auditors moderately increases work effort

c. Collaboration with auditors does not significantly affect work effort

19. Does anybody in your LSG monitor implementation of recommendations made by external and internal auditors?

20. What is the percentages of implementation of the recommendations / advice you receive from the internal auditor (1 - 0-20% ... 5 - 80-100%) (If the percentages of implementation of the recommendations is less than 60%, give reasons)

a. What are the recommendations most commonly referred to?

21. How common are potential disagreements with internal auditors (in terms of specific recommendations, opinions or advice)? (1- very common, 5- not happening)

a. What are the most common disagreements?

22. How do you evaluate the overall quality of cooperation with internal auditors? (1- poor, 5- excellent)

23. Does the quality of collaboration with internal auditors improve over time? (1- deteriorates, 3- does not change, 5- significantly improves)

24. What steps would be needed to improve the quality of cooperation with internal auditors?

25. Do you consider that being internal auditor is a complex job? (How much, why?)

26. What qualities, characteristics and skills are needed to be a good internal auditor? (enumerate)

27. Do you consider that the established reporting structure provide objectivity and independence of internal audit? (if not, why not?)

28. Are internal audit reports available to employees in the departments covered by the audit? (If not, why?)

29. Do internal auditors attend management meetings? (if not, why not?)

30.What recommendations would you make to further improve of internal audit or internal financial control in the public sector in general?

31. Any further comments and suggestions?



**Assessment of public perception of internal auditors in the local-self-governments in Serbia**

## ***Questionnaire B*** - Internal Auditors

***General information:***

1. Has your LSG participated in any of the Project for the Public sector internal financial control (PIFC) capacity building (UNDP (SDC) / RELOF)?
   1. From when to when?

b. Evaluate the overall contribution of the Project to capacity building for PIFC I implementation (1- weak, 5- very significant)

c. How much the Project has changed the way public finances are managed in your LSG (1 - completely changed for the worse, 3 - not significantly changed, 5 - completely changed for the better)

d. Evaluate the overall contribution of the Project to narrowing the space for corruption (1- insignificant, 5- very significant)

e. Rate the overall contribution of the Project to capacity building of the Internal Audit (1- insignificant, 5- very significant)

1. Does your LSG have an internal audit unit (in accordance with IIA Rule)?

a. If there is:

i. When was the internal audit established?

ii. How many positions are there in internal audit unit per systematization?

iii. Do you think that number is optimal?

iv. How many positions are filled?

v. What is the main reason for any difficulties in filling the required positions as an internal auditor?

vi. Has the number of employees of internal auditors changed in the last couple of years?

b. If not - provide main reason(s)

3. Does your local government submit to the Ministry of Finance a completed FMC report?

a. When did you submit your first completed FMC Report?

4. Has a working group for the introduction and development of the FMC system been established? (When?)

5. Does your organization have defined business goals in writing?

a. Are the goals concrete, measurable, achievable and time-bound?

b. Give examples of some key (general) goals?

c. Is the implementation of the business goals monitored?

6. Has a Risk Assessment been carried out? (when)

7. Has a Risk Management Strategy been adopted? (when)

8. What are the key identified risks? (description in brief)

9. Has a map of business processes been drawn up in your local government?

a. Are there clear operating instructions for business processes?

b. Do these instructions contain descriptions of control mechanisms (internal controls)?

10. Is your organization required to report regularly on risk management, internal control and internal audit?

11. Do you consider the processes of risk management, internal control and internal audit to be useful for achieving the objectives?

12. Do you think that the process of managing public finances within your organization could be more transparent to citizens?

a. If not, why not?

b. If yes, in which segments?

***Group-specific questions:***

13. Do you believe that an Internal audit is necessary for the effective and efficient functioning of your LSG? (why - main reasons)

14. Evaluate the potential contribution of internal audit to improvement of internal control systems in your LSG?

15. How far is your organizational unit from reaching its full potential? (1-very far, 5-realizing its full potential)

16. What would be the main reasons for making lower contributions than potential ones? (you can choose more options)

a. Unclearly defined responsibility of employees / executives

b. Negligence / ignorance of employees / executives about the importance of financial management and control

c. Lack of authority of the internal auditors

d. Insufficient capacity - number of internal auditors employed

e. Other?

17. Does anybody in your LSG monitor implementation of recommendations made by external and internal auditors?

18. Are you satisfied with the level of implementation of your recommendations /advises that executives / employees receive from you?

a. What is the percentage of implementation of the recommendations? (1 - 0-20% ... 5 - 80-100%)

b. If it is less than 60%, what could be the reason (s)?

19. What are the most common recommendations?

20. Do you consider that the established reporting structure provide objectivity and independence of internal audit?

1. Do you attend management meetings? (if not, why not?)
2. How common are potential disagreements with internal audit users (in terms of specific recommendations, opinions or advice)? (1- quite common, 5- not happening)

a. What are the most common disagreements?

1. How do you evaluate the overall quality of cooperation with Internal audit Users? (1- poor, 5- excellent)
2. Does the quality of collaboration with Internal audit Users improve over time? (1- deteriorates, 3- does not change, 5- significantly improves)
3. What steps would be needed to improve the quality of collaboration with colleagues (internal audit users)?
4. What qualities, characteristics and skills are needed to be a good internal auditor? (enumerate)
5. Do you consider that being internal auditor is a complex job? (How much, why?)
6. How satisfied are you with your job? (1- very little, 5- very)
7. What would be the possible reasons for job dissatisfaction? (few answers can be selected)

a. Relationship with colleagues

b. Salary

c. Authority of Internal Auditors

d. Something else?

30. What recommendations would you make to further improve of internal audit or internal financial control in the public sector in general?

31. Any other comments and suggestions?

# Annex 2 – Contact list

|  |  |  |  |
| --- | --- | --- | --- |
|  | LSG | Internal Auditors | Users |
| 1 | Užice | Milomir Pantović | Radmila Baćković Šojić, head of the budget department  Ana Jovanović, Budget Analyst |
| 2 | Loznica | Vanja Simeunović | Vladimir Radojčić, Chief of city administration |
| 3 | Subotica | Jan Ključik | Dubravka Rodić, Secretary to the Secretariat of Finance  Snežana Pejčić, FMC Coordinator  Snežana Pejčić, FMC Coordinator |
| 4 | Niš | Jelena Kovačević  Igor Živković | Mirjana Radovanović, Head of treasury department  Radoslav Ivanić, Head of the Budget Planning Section - Secretariat for Finance |
| 5 | Novi Sad | Danka Grubešić  NatalijaRadanović | Jelena Prodanov, Coordinator for FMC |
| 6 | Aleksinac | Danijela Mikić | Dejan Milošević, chief of city administration  Dragana Jovanović, Head of Finance department |
| 7 | Mali Zvornik | Miloš Spasenović | Milan Jevtić, Head of Finance department |
| 8 | Kruševac | Nebojša Janić | Vesna Lazarević, deputy Mayor  Biljana Cvetković, Head of Finance department |
| 9 | Zrenjanin | Žana Soković  Jelena Bošnjak | Čedomir Janjić, mayor  Jasmina Malinic, chief of city administration Vesna Sandic, Coordinator for FMC |
| 10 | Vranje | Tanja Anđelković | Dr Slobodan Milenković, Mayor  Nenad Tasić, Head of Budget and Finance department  Ljubiša Stojanović, Head of Tax Administration and coordinator for FMC |
| 11 | Kragujevac | Milijana Ratković | Jelena Bojović, Coordinator for FMC andChief of city administration |
| 12 | Valjevo | Nada Nedić Filipović  Goran Lučić | Jelica Panjković Tešić, Chief of city administration  Željko Tabašević, Head of Finance department |
| 13 | Novi Pazar | Irma Ljajić | Mirsed Bojardzić, Head of the city government for collection of public revenues |
| 14 | Zaječar | Darjan Tošić/ did not respond | N/A |
| 15 | Sjenica | Damir Kucevic/ did not respond | N/A |

1. The main source: *Handbook of Financial Management and Control*; Ministry of Finance, Republic of Serbia [↑](#footnote-ref-1)
2. As expressed in project document by the UNDP - “Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management” from November 2015 [↑](#footnote-ref-2)
3. Užice, Valjevo, Mali Zvornik, Subotica, Novi Pazar, Sjenica, Vranje, Niš, Novi Sad, Zrenjanin, Kragujevac, Kruševac, Loznica, Aleksinac [↑](#footnote-ref-3)
4. Zaječar was also a part of this sample (The sample was intended to be 15), but we were not able to get in touch with them. They neither responded to the e-mail(s) they received, nor did they answer phone calls. [↑](#footnote-ref-4)
5. For more on questionnaires, see chapter *3.2. The Questionnaires* [↑](#footnote-ref-5)
6. Both questionnaires are available in the Annex 1 of this document [↑](#footnote-ref-6)
7. “Consolidated yearly report on Public Internal Financial Control implementation status in Republic of Serbia – 2018”, MoF (2019) [↑](#footnote-ref-7)
8. Only auditors from Novi Pazar are not, and Aleksinac and Mali Zvornik have not had internal audits yet [↑](#footnote-ref-8)
9. Official data – refers to on-time accepted recommendations [↑](#footnote-ref-9)
10. Aleksinac and Mali Zvornik cannot monitor the implementation of the recommendations yet. The internal auditor in Aleksinac has not conducted internal audits so far, since she is still waiting to obtain a license. In Mali Zvornik the first audit was done only recently, and recommendations were just written. [↑](#footnote-ref-10)
11. However, as stated in 3.4. Limitations (page 8), sometimes respondents were not sure to which extent (or even if) they (or their LSG) had participated in some project or not, especially trainings and seminars. Moreover, it is hard to quantify the extent to which the LSGs were involved in some project. For instance: duration of a training varies from one to a couple of days, trainings cold have been taken by one or more LSG employees; different projects may entail different activities… [↑](#footnote-ref-11)
12. Here, we do not isolate the effect of trainings, seminars and other factors. We assume that these are evenly distributed – in other words, this graph represents what happens if the conditions that are usual (or average) for Serbia are met. [↑](#footnote-ref-12)
13. Two outliers are removed so that normal distribution can be obtained– one positive (Zrenjanin) and one negative (Kruševac). In Sjenca, we take 2018 as the year when internal audit was established, since the year when the function was formally established (2015) is probably not a valid starting point for this analysis. [↑](#footnote-ref-13)
14. In terms of advice for concrete challenges they face with implementing and developing FMC and IA [↑](#footnote-ref-14)