URED ZA REVIZIJU INSTITUCIJA BIH
КАНЦЕЛАРИЈА ЗА РЕВИЗИЈУ ИНСТИТУЦИЈА БИХ
AUDIT OFFICE OF THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA

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PERFORMANCE AUDIT

„FINANCIAL MANAGEMENT AND CONTROL IN THE INSTITUTIONS OF BIH“

Sarajevo, October 2026

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Sarajevo, October 2026

FINANCIAL MANAGEMENT AND CONTROL IN THE INSTITUTIONS OF BiH

The Audit Office of the Institutions of BiH conducted a performance audit on “Financial Management and Control in the Institutions of BiH”. The audit aimed to examine whether the institutions of BiH are efficient in ensuring a functional financial management and control system. The audit was conducted in accordance with the Law on Auditing the Institutions of BiH, the International Standards of Supreme Audit Institutions (ISSAIs), INTOSAI guidance and the performance audit methodology of the supreme audit institutions in BiH.

The audit findings indicate that the sampled institutions of BiH are not efficient in ensuring the establishment, implementation and operation of the financial management and control system. Although the key elements of the system have been established in most institutions of BiH, their interconnection and use do not ensure that the system reliably supports risk management and decision-making. The audit identified shortcomings in aligning internal organisation rulebooks with the requirements for defining responsibilities for financial management and control, updating business process maps and risk registers, planning system improvement measures, and using information on risks and the results of measures implemented. Limitations were also identified in the operation of the PIFC application as a tool supporting the financial management and control system.

The audit also found that the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH has not ensured sufficiently efficient monitoring and quality assessment of the financial management and control system in the institutions of BiH. Annual quality assessments and Consolidated Annual Reports on the Financial Management and Control System in the Institutions of BiH do not provide a complete picture of the system's actual condition. Individual quality assessments, while useful for identifying weaknesses, provide insufficient information on progress in improving the system because of their limited coverage and reporting arrangements. The audit also found that the available information on the implementation of recommendations following individual quality assessments does not provide a sufficient basis for reliably assessing the effects of implemented recommendations on improvements to the financial management and control system.

Recommendations were issued to the sampled institutions of BiH and the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH to improve the alignment of key elements of the financial management and control system, strengthen risk management, improve system monitoring and quality assessment, and enhance the functionality of the PIFC application. Implementing the recommendations should contribute to stronger managerial accountability, improved risk management and more efficient use of public funds in the institutions of BiH.

In accordance with the Law on Auditing the Institutions of BiH, the Audit Office of the Institutions of BiH submitted the draft report to the audited institutions for comments and observations. The comments received were considered and, where justified, resulted in amendments to the final report.

AUDITOR GENERAL
Hrvoje Tvrtković, sgd.

DEPUTY AUDITOR GENERAL
Nedžad Hajtić, sgd.

DEPUTY AUDITOR GENERAL
Neda Močević, sgd.

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Abbreviations

Abbreviation	Full name
ALMS	Agency for Medicinal Products and Medical Devices of Bosnia and Herzegovina
ASH	Food Safety Agency of Bosnia and Herzegovina
AŠUK	Agency for Education and Professional Training
BiH	Bosnia and Herzegovina
CHU	Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DARNS	State Regulatory Agency for Radiation and Nuclear Safety of BiH
EC	European Commission
EU	European Union
FMC	Financial management and control
IA	Internal audit
IT	Information technology
MoFT	Ministry of Finance and Treasury of Bosnia and Herzegovina
MLJPI	Ministry of Human Rights and Refugees of Bosnia and Herzegovina
MKP	Ministry of Communications and Transport of Bosnia and Herzegovina
2018 Decision of the Council of Ministers of BiH	Decision Amending and Supplementing the Decision on Job Classification and Criteria for Job Descriptions in the Institutions of BiH
PIFC	Public Internal Financial Control
SPS	Service for Foreigners' Affairs
SAA	Stabilisation and Association Agreement
SZP	Service for Common Affairs of the Institutions of Bosnia and Herzegovina
Audit Office	Audit Office of the Institutions of Bosnia and Herzegovina
CoM BiH	Council of Ministers of Bosnia and Herzegovina

Executive summary:

The audit aimed to examine whether the institutions of BiH are efficient in ensuring a functional financial management and control (FMC) system. The key audit findings and recommendations are presented below.

The sampled institutions of BiH are not efficient in ensuring the establishment, implementation and operation of the FMC system.

- In most sampled institutions of BiH, internal organisation rulebooks are not aligned with the requirements for defining FMC responsibilities.
- Business process maps and risk registers are not regularly updated or fully aligned with the organisational structure and business processes of the institutions of BiH.
- The interconnection between business process maps, risk registers and action plans necessary for efficient risk management has not been fully ensured.
- Action plans are not prepared consistently in all institutions of BiH, and the measures defined focus mainly on carrying out activities and producing documents, without indicators enabling their effects to be assessed.
- Information on the results and effects of measures implemented is not sufficiently available, preventing a reliable assessment of their contribution to risk management and improvement of the FMC system.
- The PIFC application has not fully provided functional support for risk management, monitoring and reporting on the FMC system, and numerous functional limitations have been recorded.

The CHU has not ensured efficient monitoring and quality assessment of the FMC system in the institutions of BiH

- The CHU is unable to verify the accuracy and reliability of all data submitted by the institutions of BiH through their annual FMC reports.
- Recommendations in consolidated reports stem from identified FMC system weaknesses but are not linked to the specific institutions in which those weaknesses were identified. They therefore do not direct improvement activities clearly enough towards the institutions where weaknesses are most pronounced.
- Individual quality assessments cover a small number of institutions of BiH compared with the total number of institutions included in the FMC system.
- The CHU does not document how it applies the criteria for selecting institutions of BiH for individual quality assessments.
- Reporting on the implementation of recommendations from individual quality assessments enables their implementation status to be monitored, but provides insufficient information for a reliable assessment of their effects on improvements to the FMC system.

Recommendation to the sampled institutions of BiH:

- ***Ensure that the key elements of the financial management and control system are aligned and interconnected so that they support risk management and decision-making.***

Recommendations to the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH:

- ***Improve the monitoring and conduct of annual quality assessments to improve the financial management and control system in the institutions of BiH.***
- ***Improve the monitoring and conduct of individual quality assessments to strengthen their impact on improvements to the financial management and control system in the institutions of BiH.***
- ***Ensure the conditions for enhancing the functionality of the PIFC application so that it can be used more efficiently as a tool supporting risk management and improvement of the financial management and control system in the institutions of BiH.***

1. INTRODUCTION

1.1. Background and reasons for the audit

Public internal financial control (PIFC)[1] is a legal obligation of the institutions of Bosnia and Herzegovina (BiH) prescribed by the Law on Financing the Institutions of BiH (Law on Financing), and one of the commitments undertaken through the Stabilisation and Association Agreement with the European Union (SAA)[2]. The PIFC framework in the institutions of BiH is based on financial management and control (FMC), functionally independent internal audit (IA), and the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH (CHU).[2]

FMC is a system of policies, procedures and controls ensuring the lawful, proper, economical and efficient management of public funds[3], in accordance with the principles of the European Commission (EC).[4] The heads of the institutions of BiH are responsible for establishing and developing the FMC system, while the CHU is responsible for developing the methodological framework, coordinating activities, and monitoring and assessing the quality of the FMC system in the institutions of BiH.[5]

Although most FMC secondary legislation was adopted in 2014 and 2015[6], the CHU's Consolidated Annual Reports on the FMC System (Consolidated Reports) show that, even after more than ten years, the institutions of BiH have not fully established and developed all key elements necessary for the FMC system to function. The CHU's Consolidated Reports indicate that some institutions of BiH still lack established or updated key FMC elements, including business process maps, risk registers and other risk management and internal control mechanisms.[7]

The need to improve the FMC system is also highlighted in the financial audit reports of the Audit Office of the Institutions of BiH (Audit Office), which have identified shortcomings in risk management, internal procedures, internal controls and other FMC system elements over several years.[8] Earlier performance audits also identified systemic weaknesses in the

[1] Public Internal Financial Control.
[2] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12, 32/13 and 38/22); Stabilisation and Association Agreement between the European Union and BiH, EUR-Lex --summary, available at: https://eur-lex.europa.eu/HR/legal-content/summary/stabilisation-and-association-agreement-with-bosnia-and-herzegovina.html)
[3] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 1/04, 49/09, 42/12, 87/12 and 32/13); CHU secondary legislation available at: https://SHJ.mft.gov.ba/content/read/prpisi-fuk; Stabilisation and Association Agreement between the European Union and BiH, EUR-Lex --summary, available at: https://eur-lex.europa.eu/HR/legal-content/summary/stabilisation-and-association-agreement-with-bosnia-and-herzegovina.html;
[4] European Commission — Public Internal Control (PIC), available at: https://commission.europa.eu/strategy-and-policy/eu-budget/protection-eu-budget/public-internal-control_en
[5] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 1/04, 49/09, 42/12, 87/12 and 32/13)
[6] Most FMC secondary legislation was adopted in late 2014 and early 2015.
[7] Consolidated Annual Reports on the Financial Management and Control System in the Institutions of BiH. Consolidated Reports
[8] Financial audit reports for 2020, 2021, 2022, 2023 and 2024. Audit Reports — AUDIT OFFICE OF THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA; Financial Audit Report on the Report on Budget Execution of the Institutions of BiH. Budget Execution of the Institutions of BiH — AUDIT OFFICE OF THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA

establishment and operation of public internal financial control and a need for further development of the FMC system in the institutions of BiH.[9]
Given the importance of the FMC system for accountable management of public funds, risk management and achievement of institutional objectives, the Audit Office conducted a performance audit to examine the efficiency of establishing, implementing, monitoring and improving the FMC system in the institutions of BiH.

1.2. Audit objective, scope and limitations

Audit objective

The audit aims to examine whether the institutions of BiH are efficient in ensuring a functional financial management and control (FMC) system.

Audit purpose

The purpose of the audit is to contribute to improving the financial management and control system to ensure the lawful, proper, ethical, economical and efficient management of public funds.

Audit scope and limitations

The audit examined the activities of the sampled institutions of BiH and the CHU concerning the establishment, implementation, monitoring and quality assessment of the FMC system in 2021–2025. It covered activities relating to the establishment and operation of key FMC system elements, including alignment of internal organisation rulebooks with the requirements for defining FMC responsibilities; establishing and updating business process maps; identifying and assessing risks through risk registers; planning and implementing system improvement measures; reporting on the FMC system; annual reporting to the CHU; use of the PIFC application to monitor, manage and report on the FMC system; and the CHU's activities to monitor and assess the quality of the FMC system in the institutions of BiH.

In addition to a detailed analysis of the sampled institutions, the audit analysed data from the Consolidated Reports on the FMC System in the Institutions of BiH. These data were used to review the overall state of the FMC system across all institutions of BiH, while a detailed analysis of its operation was conducted in the institutions covered by the audit sample.

In the sampled institutions, the audit analysed internal organisation rulebooks, business process maps, risk registers, action plans for developing and improving the FMC system, defined risk management measures, annual FMC reports, reports to management on the FMC system, data and information available through the PIFC application, and other documentation relevant to assessing system operation. Particular attention was given to the interconnection of key FMC elements, risk management arrangements, planning and monitoring risk

[9]The 2015 performance audit report "Establishment of Public Internal Financial Control (PIFC) in the Institutions of BiH" and the 2019 "Follow-up on the Implementation of Performance Audit Recommendations". Audit Reports — AUDIT OFFICE OF THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA. In 2019, the Audit Office also followed up institutions' implementation of the performance audit recommendations. In addition to progress, it identified a continuing need for FMC improvement, as some institutions had not undertaken all necessary activities for the system to function fully.

management measures, reporting to management, and the information the FMC system provides on the results and effects of measures implemented.

Regarding the CHU's responsibilities, the audit analysed activities to monitor and assess the FMC system through annual consolidated reports, individual quality assessments, institutions' reports on the implementation of recommendations from individual quality assessments, criteria for selecting institutions for such assessments, and activities to improve the FMC system in the institutions of BiH. The CHU's procedures for using available data, identifying system weaknesses and issuing improvement recommendations were also analysed.

A detailed analysis was conducted in a sample of institutions of BiH selected using the following criteria:

- Shortcomings in establishing the FMC system identified in the Audit Office's financial audit reports for 2021–2024.
- The institutions' 2024 budgets and the complexity of their business processes.
- Individual quality assessments of the FMC system in the institutions of BiH conducted by the CHU.

To select the sample, the Audit Office's financial audit reports for all institutions of BiH for 2021–2024 were analysed. The analysis found that shortcomings in establishing the FMC system were identified in 41 institutions during that period. Of these, 14 had shortcomings identified in several years within 2021–2024, ranging from three to four years. Of those 14 institutions, we selected three: the Agency for Education and Professional Training (AŠUK), the State Regulatory Agency for Radiation and Nuclear Safety of BiH (DARNS), and the Service for Foreigners' Affairs (SPS), combining the recurrence of shortcomings, institutions' 2024 budgets[10] and business process complexity. The CHU was also included because of its dual role: as an institution that has established an FMC system in -its own operations and may serve as an example of good practice, and as the body responsible for developing FMC in the institutions of BiH. MLJPI was also included as one of the four institutions in which the CHU conducted an individual quality assessment of the FMC system in 2021–2025. The following table presents the institutions selected for the audit sample.

Table 1: Sample of institutions of BiH

No.	Sample of institutions of BiH
1.	Agency for Education and Professional Training
2.	Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH
3.	State Regulatory Agency for Radiation and Nuclear Safety of BiH
4.	Ministry of Human Rights and Refugees of BiH
5.	Service for Foreigners' Affairs

Source: Audit Office

[10] Based on approved 2024 budgets, the institutions of BiH were grouped into those with budgets up to KM 1.5 million, between KM 1.5 million and KM 5 million, and above KM 5 million. In the selected sample, DARNS belongs to the first group (approved 2024 budget: KM 1.3 million), AŠUK to the second (KM 3.5 million), and SPS to the third (KM 18.2 million).

No significant limitations were identified during the audit that could affect the reliability of its findings, conclusions or recommendations.

1.3. Audit questions and criteria

Once the audit objective had been established, the following main audit question was defined:

Are the institutions of BiH efficient in ensuring a functional financial management and control (FMC) system?

The main audit question was answered through the following audit subquestions:

1. ***Are the institutions of BiH efficient in ensuring the establishment, implementation and operation of the FMC system?***

2. ***Does the CHU ensure efficient monitoring and quality assessment of the FMC system in the institutions of BiH?***

1.4. Audit criteria

The audit criteria are benchmarks for assessing efficiency in the subject area and correspond to the audit questions. The criteria used to assess the FMC system in the institutions of BiH are based on the Law on Financing the Institutions of BiH[11], the Internal Control Standards in the Institutions of BiH [12], the Financial Management and Control Manual [13], the Risk Management Guidelines — Version 2[14], the Rulebook on Annual Reporting on the FMC System[15], the Guidelines for Developing Managerial Accountability[16], the Rulebook on Quality Assessment of the FMC System[17], and the Rulebook on the Use of the Application for Monitoring Managing and Reporting on the FMC System and Internal Audit[18].

In addition to this legislation and secondary legislation, the criteria were based on data from consolidated annual FMC reports, good practices in applying the COSO framework, CHU recommendations, and previous audit reports of the Audit Office.

These criteria enable an assessment of whether the institutions of BiH regularly undertake activities to establish and improve the FMC system, including business process mapping, creating and updating risk registers, establishing internal controls, reporting to management and implementing corrective measures, and whether the CHU ensures efficient monitoring and quality assessment of the FMC system. In view of changes in the regulatory, organisational and operating environment, including changes to legislation and secondary legislation, organisational and staffing structures, staff turnover and similar factors, institutions regularly

[11] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12, 32/13 and 38/22)
[12] Internal Control Standards in the Institutions of BiH (Official Gazette of BiH, No. 61/14)
[13] Financial Management and Control Manual for the Institutions of BiH (Official Gazette of BiH, No. 98/14),
[14] Risk Management Guidelines for the Institutions of BiH — Version 2 (Official Gazette of BiH, No. 84/20),
[15] Rulebook on Annual Reporting on the Financial Management and Control System in the Institutions of BiH (Official Gazette of BiH, No. 77/15),
[16] Guidelines for Developing Managerial Accountability in the Institutions of BiH (Official Gazette of BiH, No. 26/20)
[17] Rulebook on Quality Assessment of the Financial Management and Control System in the Institutions of BiH (Official Gazette of BiH, No. 22/22)
[18] Rulebook on the Use of the Application for Monitoring Managing and Reporting on the Financial Management and Control System and Internal Audit in the Institutions of BiH (Official Gazette of BiH, No. 21/22).

review and update business process maps, risk registers, internal procedures and control activities. Updated FMC system elements ensure compliance with current regulations, efficient management of change and risks, and support for achieving institutional objectives.

Criteria for the first audit subquestion:

Internal organisation rulebooks of the institutions of BiH are aligned with the requirements for defining the responsibilities of heads of institutions and organisational units for establishing and implementing FMC.[19]

The institutions of BiH have established business process maps and update them regularly. Preparing a business process map involves identifying and listing business processes and their main activities and combining them into a single business process map. Institutions have identified and assessed risks associated with their business processes and compiled risk registers that they update regularly. Identified risks form the basis for defining risk management measures and should enable the management of risks associated with business processes and the achievement of institutional objectives.[20] Institutions have defined management measures for identified risks.[21]

The institutions of BiH adopt annual FMC action or operational plans defining measures and responsibilities. They ensure that risk management measures address the causes of identified risks, that their implementation is monitored, and that information on their effects is available as a basis for risk management and improvement of the FMC system.[22]

An institution's internal organisation rulebook, business process map, risk register and action plan are aligned and form the basis for establishing and implementing internal controls.[23]
The PIFC application, as a key tool for improving the internal control system in the institutions of BiH, ensures the availability and reliability of data needed for risk management, monitoring, reporting and assessment of the state of the FMC system.[24]

Criteria for the second audit subquestion:

Through monitoring and assessment of FMC in the institutions of BiH, the CHU ensures that actual system weaknesses are identified, operational solutions for improvement are provided,

[19] Decision Amending and Supplementing the Decision on Job Classification and Criteria for Job Descriptions in the Institutions of BiH (Official Gazette of BiH, No. 51/18).
[20] Financial Management and Control Manual (Official Gazette of BiH, No. 98/14) and Risk Management Guidelines for the Institutions of Bosnia and Herzegovina — Version 2 (Official Gazette of BiH, No. 84/20).
[21] Financial Management and Control Manual, Official Gazette of BiH, No. 98/14, and Risk Management Guidelines — Version 2, Official Gazette of BiH, No. 84/20
[22] Financial Management and Control Manual, Official Gazette of BiH, No. 98/14; Risk Management Guidelines — Version 2, Official Gazette of BiH, No. 84/20; COSO Internal Control — Integrated Framework (2013), Principle 10 — Selects and Develops Control Activities, and Principle 16 — Performs Ongoing and/or Separate Evaluations.
[23] Financial Management and Control Manual, Official Gazette of BiH, No. 98/14
[24] Rulebook on the Use of the Application for Monitoring Managing and Reporting on the Financial Management and Control System and Internal Audit in the Institutions of BiH (Official Gazette of BiH, No. 21/22). The Rulebook stipulates that the PIFC application is software for improving and reporting on financial management and control, efficiently managing the internal audit process and reporting on internal audit activities, and is a key tool for improving internal controls in the institutions of BiH.

and information enabling progress in improving the FMC system to be monitored is made available. [25]

The CHU selects institutions for individual quality assessments based on assessed risks, budgets, staff numbers, and information on FMC system weaknesses contained in annual FMC reports, audit reports and other relevant sources. Reporting to the Council of Ministers of BiH on the implementation of recommendations following individual quality assessments should enable progress in improving the FMC system in the institutions of BiH to be reviewed. [26]

1.5. Audit methods and sources of information

To analyse the FMC activities of the sampled institutions of BiH and the CHU, the audit team reviewed the relevant legislation and secondary legislation governing this area. Particular attention was given to the Law on Financing, the Internal Control Standards in the Institutions of BiH, the Rulebook on Annual Reporting on the FMC System, the Rulebook on Quality Assessment of the FMC System, the Financial Management and Control Manual for the Institutions of BiH, the Risk Management Guidelines for the Institutions of BiH — Version 2, the Guidelines for Developing Managerial Accountability in the Institutions of BiH, and the Rulebook on the Use of the Application for Monitoring, Managing and Reporting on the FMC System and Internal Audit.

The audit team used a combination of qualitative and quantitative data collection methods. The key methods included interviews with representatives of the sampled institutions and the CHU, document analysis, and review of available data on the establishment and operation of the FMC system. These methods provided the information needed to answer the audit questions and assess compliance with the audit criteria.

Data were collected by reviewing and analysing internal organisation rulebooks, business process maps, risk registers, FMC development plans, annual FMC reports, individual quality assessment reports, reports on the implementation of recommendations from individual quality assessments, and other documentation relevant to the audit subject. The CHU's annual consolidated reports and the Audit Office's reports for 2021–2024 were also analysed. The audit also reviewed available data from the PIFC application, CHU documentation on its use and operation, and reports of the Commission for Monitoring and Reporting on Activities Relating to the PIFC Application.

A separate part of the work involved analysing four reports on individual quality assessments of the FMC system conducted by the CHU in 2023–2025, and reports on MLJPI's implementation of quality assessment recommendations. The audit also analysed the CHU's activities relating to the selection of institutions for individual quality assessments, monitoring the implementation of recommendations, and preparing annual consolidated FMC reports.

[25] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12, 32/13 and 38/22); Rulebook on Quality Assessment of the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 22/22); COSO Internal Control — Integrated Framework (2013), Principle 16 — Performs Ongoing and/or Separate Evaluations, and Principle 17 — Evaluates and Communicates Deficiencies.

[26] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12, 32/13 and 38/22); Decision Adopting the Rulebook on Quality Assessment of the Financial Management and Control System in the Institutions of BiH (Official Gazette of BiH, No. 22/22); Rulebook on Quality Assessment of the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 22/22).

The data collected were compared and analysed against the established audit criteria. The audit findings, conclusions and recommendations were formulated on the basis of the analysis.

1.6. Report structure

Chapter 1 presents the reasons for the audit, its objective, purpose, scope, criteria, sources of information and methods.

Chapter 2 provides the data and information needed to understand the FMC system in the institutions of BiH and the CHU's role.

Chapter 3 presents audit findings concerning the establishment, implementation and operation of the FMC system in the institutions of BiH and the CHU's activities to monitor and assess the system.

Chapter 4 contains the audit conclusions, answering the audit questions.

Chapter 5 provides recommendations whose implementation would improve the establishment, implementation and operation of the financial management and control system in the institutions of BiH, and the monitoring and assessment activities carried out by the CHU.

2. BACKGROUND TO THE FINANCIAL MANAGEMENT AND CONTROL SYSTEM

This chapter presents key information needed to understand the FMC system and the responsibilities of the institutions of BiH in this area.

2.1. Concept and purpose of FMC within public internal financial control

Public internal financial control (PIFC)[27] forms part of public financial management reform and, consequently, public administration reform in BiH. The EC developed the concept of PIFC in the public sector to support the understanding and implementation of well-developed and effective control systems during EU accession. PIFC development aims to ensure efficient and economical management of budget funds and EU funds. The PIFC framework comprises three pillars:

- financial management and control (FMC),
- functionally independent and decentralised internal audit, and
- the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH (CHU).

Establishing and developing PIFC is an obligation of BiH under Article 90 of the SAA between the European Communities and their Member States, of the one part, and BiH, of the other part. Establishing PIFC is based on international standards: the international internal audit standards issued by the Institute of Internal Auditors, the International Organisation of Supreme Audit Institutions' Guidelines for Internal Control Standards for the Public Sector, and the EC's Internal Control Standards.[28]

In 2020, the Council of Ministers of BiH adopted the Strategy for the Development of Public Internal Financial Control in the Institutions of BiH for 2020–2025, the third strategic document in this area[29]. It continues the Council of Ministers' commitment to strengthening the conditions for legally compliant, efficient, transparent and accountable management of public finances. The Strategy is implemented through the measures and activities in its integral Action Plan. Under the Strategy, the CHU adopts an Annual Operational Action Plan each year based on the Strategy's Action Plan. Under the CHU's annual Decision Adopting the Annual Operational Action Plan for the Strategy, the institutions of BiH must adopt their own annual action plans for establishing and improving public internal financial control, in accordance with the Strategy's Annual Operational Action Plan, internal audit recommendations, the Audit Office's recommendations, and the internal acts governing public internal financial control within their institutions.[30] The CHU reports to the Council of Ministers of BiH on implementation of

[27] Public internal financial control (PIFC) encompasses principles of the acquis communautaire established by the European Union as a comprehensive internal financial control system for sound management of public sector revenue, expenditure, assets and liabilities, regardless of their source. (Source: Strategy for Implementing Public Internal Financial Control in the Institutions of BiH, Council of Ministers of BiH, 2009)

[28] Consolidated Annual Report on the FMC System in the Institutions of BiH for 2025 (Ref. 03-1-16-8-4-83/26, 27 March 2026);

[29] Decision Adopting the "Strategy for the Development of Public Internal Financial Control in the Institutions of BiH for 2020–2025" (Official Gazette of BiH, No. 43/20);
Previous strategic documents were the "Strategy for Implementing Public Internal Financial Control in the Institutions of BiH", adopted at the Council of Ministers' 110th session on 30 December 2009, and the "Strategy for the Development of Public Internal Financial Control in the Institutions of BiH for 2016–2018", adopted at its 87th session on 29 December 2016;

[30] Decision Adopting the Annual Operational Action Plan of the Strategy for the Development of Public Internal Financial Control in the Institutions of BiH for 2025 (Ref. 03-1-02-4-126-1/25, 17 March 2025).

measures, achievement of the Action Plan's objectives and progress in PIFC through its regular annual consolidated FMC reports.

FMC in the institutions of BiH is regulated by the Law on Financing the Institutions of BiH[31]. The Law defines FMC as a comprehensive system of policies, procedures and activities established by, and under the responsibility of, the head of an institution. The FMC system is based on risk management and provides reasonable assurance that institutional objectives will be achieved properly, economically, efficiently and effectively[32].

The purpose of FMC in public service delivery is to ensure that services are provided as simply, quickly and inexpensively as possible, at an appropriate level of quality and in accordance with the law. FMC applies to financial processes and activities in an institution's operations and to all other institutional processes[33].

FMC is implemented through interconnected components constituting the elements of internal control standards, namely[34]:

- control environment,
- risk management,
- control activities,
- information and communication, and
- monitoring and assessment of the system.

The CHU elaborates the components of internal control standards through secondary legislation, including methodologies, framework manuals, framework rulebooks, operational guidance and instructions.

2.2. The CHU's responsibilities regarding the FMC system

The CHU is responsible for coordinating and harmonising the FMC system in the institutions of BiH. Its responsibilities include[35]:

- preparing and updating strategic documents and FMC guidelines,
- preparing FMC legislation and secondary legislation,
- defining the content of FMC training programmes and coordinating those programmes,
- assessing the FMC system in the institutions of BiH,
- conducting analyses and proposing operational solutions to improve FMC,
- prescribing the annual reporting format, procedures and deadlines for FMC,
- monitoring compliance with FMC regulations on the basis of annual FMC reports submitted by the institutions of BiH,
- preparing a consolidated annual report on the FMC system in the institutions of BiH,
- participating in the work of the Coordination Board of Central Harmonisation Units.

[31] Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[32] Article 2 of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[33] Article 33a(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[34] Article 33b(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[35] Article 33f(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);

Based on its statutory responsibilities, the CHU adopted the following FMC secondary legislation: the Internal Control Standards in the Institutions of BiH[36], the FMC Manual for the Institutions of BiH[37], the Guidelines for Implementing the Risk Management Process in the Institutions of BiH[38], the Rulebook on Annual Reporting on the FMC System in the Institutions of BiH[39], the Guidelines for Developing Managerial Accountability in the Institutions of BiH[40], the Risk Management Guidelines for the Institutions of BiH — Version 2[41], the Rulebook on Quality Assessment of the FMC System in the Institutions of BiH[42], and the Rulebook on the Use of the Application for Monitoring Managing and Reporting on the FMC System and Internal Audit in the Institutions of BiH[43].

Annual FMC reporting comprises individual annual FMC reports by the institutions of BiH and the CHU's consolidated annual FMC report, based on the institutions' individual reports. The CHU prepares the Consolidated Annual Report on the FMC System and submits it to the Council of Ministers of BiH.[44]

For the purposes of monitoring and assessing the quality of the FMC system in the institutions of BiH, the CHU[45]:

- adopts the questionnaire for annual FMC self-assessment and completion instructions,
- adopts the questionnaire for individual quality assessments of the FMC system, including assessment areas and criteria,
- prepares an annual plan for individual quality assessments of the FMC system,
- conducts individual quality assessments of the FMC system, and
- reports to the Council of Ministers of BiH on the results of FMC quality assessments within the annual consolidated FMC report.

The objectives of FMC quality assessments conducted by the CHU are to[46]:

- identify practices and establish priorities for improving the FMC system;
- monitor the efficiency of risk management processes and implementation of internal controls;
- provide recommendations and guidance for improving the FMC system;
- monitor the implementation of measures from annual action plans for implementing the public internal financial control strategy;
- report to the Council of Ministers of BiH on the state of, progress in, and planned measures for improving the FMC system in the institutions of BiH.

[36] Official Gazette of BiH (No. 61/14);
[37] Official Gazette of BiH (No. 98/14);
[38] Official Gazette of BiH (No. 29/15);
[39] Official Gazette of BiH (No. 77/15);
[40] Official Gazette of BiH (No. 26/20);
[41] Official Gazette of BiH (No. 84/20);
[42] Official Gazette of BiH (No. 22/22);
[43] Official Gazette of BiH (No. 21/22);
[44] Rulebook on Annual Reporting on the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 77/15);
[45] Rulebook on Quality Assessment of the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 22/22);
[46] CHU Decision Adopting the "Rulebook on Quality Assessment of the Financial Management and Control System in the Institutions of Bosnia and Herzegovina" (Ref. 03-1-02-2-103-1/22, 5 April 2022);

2.3. Responsibilities of the institutions of BiH for establishing developing and implementing the FMC system

FMC is established through internal regulations as a system of procedures defining the responsibilities and powers of everyone in an institution. Internal FMC regulations are based on the components constituting internal control standards, good internal control practices, and secondary legislation adopted by the CHU[47].
Under the Law on Financing the Institutions of BiH, the head of an institution is responsible for:

- establishing, developing and implementing FMC,
- preparing internal FMC regulations,
- establishing the FMC system in all organisational units and for all programmes and processes undertaken by the institution,
- ensuring an audit trail for all financial and other transactions carried out during the reporting period, and
- preparing and submitting an annual FMC report to the CHU[48].

The institutions of BiH prepare annual FMC reports by completing the prescribed FMC self-assessment forms adopted by the CHU. The head of an institution is responsible for the accuracy of the data in its annual FMC report.[49]

The head of an institution may delegate authority to persons authorised to establish, maintain and regularly update the FMC system. Regardless of the delegation of authority and responsibilities, the head remains accountable for the legality of operations and achievement of institutional objectives[50].

The head of an institution appoints an FMC officer responsible for, and authorised to coordinate, internal control development activities. The FMC officer coordinates the following activities at institutional level:

- monitoring and evaluating the overall internal control system,
- coordinating the development and implementation of internal controls,
- monitoring identified shortcomings and necessary corrective action,
- ensuring that all employees are familiar with procedures and policies and receive appropriate internal control training,
- reporting as required by internal and external users.[51]

An institution may establish a working group to set up the FMC system. The head decides whether to establish it, taking account of the institution's size, annual budget, organisational complexity and other relevant factors. Where a working group is established, it is led by the FMC officer. Its duties are:

- listing and describing business processes,

[47] Article 33c(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[48] Article 33d(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[49] Rulebook on Annual Reporting on the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 77/15);
[50] Article 33e(1) and (2) of the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 19/09, 42/12, 87/12, 32/13 and 38/22);
[51] FMC Manual for the Institutions of BiH, December 2014;

- preparing the business process map,
- establishing the control environment,
- coordinating risk identification and assessment,
- coordinating the determination of risk responses,
- establishing control activities comprising written policies and procedures,
- establishing an information and communication system,
- establishing a system of controls and ensuring the operation of financial management,
- determining how to monitor and assess the adequacy of the financial management system established.[52]

Risk management is the overall process of identifying, assessing and monitoring risks in light of institutional objectives and taking the necessary action to reduce risks through the FMC system. Institutions should establish a systematic approach to risk management to support timely responses to risks that may prevent or hinder achievement of their objectives.[53]

[52] Ibid
[53] FMC Manual for the Institutions of BiH, December 2014;

3. FINDINGS

The audit findings represent departures from the criteria used to assess the efficiency of the FMC system in the sampled institutions of BiH. The audit found that these institutions are not efficient in ensuring a functional financial management and control system.
Section 3.1 presents audit findings concerning the establishment, implementation and operation of the FMC system in the institutions of BiH, while Section 3.2 presents findings concerning the CHU's monitoring and assessment activities.

3.1. Establishment, implementation and operation of the FMC system in the institutions of BiH

The audit found that the sampled institutions of BiH undertake activities to establish and implement key FMC elements to varying degrees, and that the interconnection of these elements necessary for efficient management of the FMC system has not been fully ensured.

The FMC system should provide institutional management with reliable information on business processes, risks and the operation of internal controls to ensure lawful, proper, economical and efficient management of public funds. Its key elements, including the definition of responsibilities, business process maps, risk registers, operational or action plans, and information on the results of measures implemented, are interconnected and should function as an integrated system supporting management and decision-making. Their purpose extends beyond meeting formal obligations prescribed by legislation and secondary legislation: they should enable management to identify risks, plan mitigation measures, monitor the results of activities undertaken and take timely corrective action.

Key FMC elements exist in most institutions of BiH, but are not connected in a functional system enabling efficient risk management and decision-making.

The key FMC elements have been established in the sampled institutions of BiH, but differences were observed in their development, implementation and operation. The analysis showed that regular updating and interconnection of these elements have not been fully ensured, particularly in risk management. Not all sampled institutions have aligned their internal organisation rulebooks with the requirements for defining FMC responsibilities. Business process maps and risk registers are not regularly updated and do not fully reflect changes in operations and risks. Nor has the interconnection between internal organisation rulebooks, business process maps, risk registers and operational or action plans been fully ensured. Operational or action plans are not prepared in all sampled institutions, are not prepared consistently, or do not clearly show how planned measures contribute to risk management and improvement of the FMC system. Consequently, available information does not adequately show the results of measures implemented or their contribution to risk management and system improvement.

3.1.1. Alignment of internal organisation rulebooks with requirements for defining FMC responsibilities

Most sampled institutions of BiH have not aligned their internal organisation rulebooks with the requirements for defining FMC responsibilities prescribed by the Council of Ministers' 2018

Decision.[54] As a result, in most sampled institutions FMC responsibilities have not been incorporated into internal organisation rulebooks as required by current regulations, potentially limiting their integration into management and managerial accountability arrangements. [55]

Clearly defining responsibilities for financial management and control is a fundamental prerequisite for managerial accountability and efficient operation of the FMC system. Internal organisation rulebooks should define the responsibilities of heads of institutions and organisational units for establishing, developing and operating the system. This creates the conditions for risk management, controls and reporting to become integral to management and the achievement of institutional objectives.

The following overview presents the alignment of sampled institutions' internal organisation rulebooks with the obligation to define FMC responsibilities under the Council of Ministers' 2018 Decision.

Table 2: Alignment of internal organisation rulebooks with requirements for defining FMC responsibilities

No.	Name of institution of BiH	Year of current rulebook	Aligned with the Council of Ministers' 2018 Decision
1.	AŠUK	2018 (supplemented in 2023)	YES
2.	CHU	2020	YES
3.	DARNS	2009	NO
4.	MLJPI	2013 (amended in 2015)	NO
5.	SPS	2009	NO

Source: Audit Office, based on data from the sampled institutions of BiH

The analysis established that three of the five sampled institutions have not aligned their internal organisation rulebooks with the requirements of the Council of Ministers' 2018 Decision.[56] SPS and DARNS apply rulebooks dating from 2009[57], while MLJPI applies a rulebook from 2013, amended in 2015, that is not aligned with the Decision's requirements[58]. AŠUK aligned its rulebook through supplements adopted in 2023[59], while the CHU regulated FMC responsibilities in its 2020 internal organisation rulebook.

[54] Decision Amending and Supplementing the Decision on Job Classification and Criteria for Job Descriptions in the Institutions of BiH (Official Gazette of BiH, No. 51/18), hereinafter: Council of Ministers' 2018 Decision.

[55] The obligation to establish FMC is prescribed by the Law on Financing the Institutions of BiH (Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12 and 32/13), while the Council of Ministers' 2018 Decision elaborates these obligations by defining responsibilities within institutions' organisational structures. The Decision introduced the requirement to define FMC responsibilities in internal organisation rulebooks.

[56] In some cases, rulebook amendments have not completed all stages of the prescribed adoption procedure, including obtaining the required opinions and approvals from competent institutions, and have not been adopted by the Council of Ministers of BiH.

[57] SPS applies its 2009 internal organisation rulebook and has initiated alignment activities; the new rulebook is being prepared and opinions sought from the competent institutions. DARNS also applies a 2009 rulebook. Its proposed internal organisation rulebook was considered at the Council of Ministers' session on 15 April 2026 but returned for further textual alignment during the coordination process. In these two sampled institutions, FMC responsibilities are defined in FMC rulebooks.-

[58] MLJPI applies its 2013 internal organisation rulebook, supplemented in 2015. Its proposed rulebook was considered at the Council of Ministers' session on 15 April 2026 but returned for further textual alignment during the coordination process.

[59] AŠUK applies its 2018 internal organisation rulebook. FMC obligations were absent from the original text and introduced later through supplements adopted in 2023.

In some sampled institutions of BiH, matters concerning the establishment and development of the FMC system are regulated through other internal acts[60], including FMC rulebooks, risk management strategies, and the appointment of FMC working groups and risk management coordinators. These acts regulate responsibilities for activities, risk management, coordination of FMC system development, and monitoring of its development. However, the Council of Ministers' 2018 Decision requires responsibilities for establishing and developing the FMC system to be defined through internal organisation rulebooks, thereby incorporating them into the responsibilities of heads of institutions and organisational units. In most sampled institutions, FMC responsibilities have not been incorporated into internal organisation rulebooks as envisaged by that Decision. Further information on the internal acts governing the establishment and development of the FMC system in the sampled institutions is provided in Annex 1.

3.1.2. Business process maps

The audit found that business process maps have been established in the sampled institutions of BiH but are not regularly updated. In some sampled institutions, alignment between business process maps and internal organisation rulebooks has also not been ensured.

Business process maps form the basis for establishing and operating the FMC system by identifying an institution's business processes, activities and responsibilities. They are used to identify and assess risks and establish management measures. Business process maps should therefore be current and aligned with actual working arrangements and the institution's organisational structure. Failure to update them increases the risk that changes in operations will not be covered by risk management and control arrangements.

Based on the data collected on the establishment and updating of business process maps, the following overview presents the situation in each sampled institution.

Table 3: Establishment and updating of business process maps

No.	Name of institution of BiH	Business process map established	Regular updates
1.	AŠUK	Partly	No
2.	CHU	Yes	Yes
3.	DARNS	Yes	No
4.	MLJPI	Yes	No
5.	SPS	Yes	No

Source: Audit Office, based on data from the sampled institutions of BiH

The analysis established that business process maps were not regularly updated in four of the five sampled institutions[61], while continuous updating was ensured in only one[62]. In three of the five sampled institutions, business process maps were not fully aligned with internal

[60] FMC rulebooks and decisions appointing FMC working groups. In DARNS and SPS, FMC responsibilities are defined in FMC rulebooks and decisions appointing the working group or FMC officer responsible for the risk management process. In AŠUK, the CHU and MLJPI, FMC responsibilities are defined in decisions appointing FMC working groups.
[61] AŠUK, DARNS, MLJPI and SPS
[62] CHU

organisation rulebooks.[63] In addition, one institution maintains separate business process maps by organisational unit without combining them into a single map at institutional level.[64]

The weaknesses identified manifest themselves differently across the sampled institutions. In AŠUK, business process maps are maintained separately by organisational unit and have not been combined into a single map. Moreover, maps were not prepared for all organisational units during the same period or updated systematically and continuously, making it difficult to obtain a comprehensive overview of business processes and their connection to other FMC elements.[65]

DARNS prepared its business process map in 2020 and has not updated it since, although FMC working groups have periodically evaluated business processes.[66]

MLJPI prepared its business process map in 2016. Until 2023, maps were maintained separately by organisational unit, making a comprehensive overview of processes and their connection to other FMC elements difficult. Since 2023, MLJPI has prepared unified maps covering all organisational units. The map for 2025 was not updated, so continuity of updating was not ensured throughout the period examined. Comparison of MLJPI's internal organisation rulebook and its business process maps for 2021–2024 found that the maps did not cover all organisational units and were therefore not fully aligned with the organisational structure.[67]

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[63] AŠUK, SPS and MLJPI. In AŠUK, comparison of business process maps with the 2018 internal organisation rulebook and its supplement (Ref. 19-6.2-02-2-185-18/22, 5 April 2023) found that the Assistant Director for Administration and Finance's responsibilities for establishing and developing management and internal control systems were not covered by the maps. AŠUK representatives stated that processes for the Assistant Director for Administration had not been mapped because the position had remained vacant for many years. In SPS, comparison of the Business Process Book (Map) (Ref. 18.1-02.4-9012/17, 25 December 2017) with the Rulebook on Internal Organisation and Job Classification of 24 September 2009 found that some organisational unit activities were not identified in the map, including monitoring international migration standards, analysing irregular migration risks, and certain internal control duties. Comparison of MLJPI's organisational structure with its maps for 2021–2025, together with the institution's response, established that the maps did not cover the Minister's Office, Deputy Minister's Office, Secretary, Secretary with Special Assignment, or the Office of the Agent of the Council of Ministers before the European Court of Human Rights.

[64] AŠUK maintains separate maps by organisational unit, such as the Section for Financial and Material Affairs and Budget Management, Section for Legal Human Resources and General Affairs, Section for Specialist Training, Section for Trainee Affairs and Records, and Support Department within the Director's Office, without combining them into a single business process map.

[65] In AŠUK, maps for all organisational units except the Section for Trainee Affairs and Records were prepared in 2017. According to the institution, all units updated their maps in 2021. The Section for Financial and Material Affairs and Budget Management updated its map again in 2025, and the Section for Delivery of Professional Training and Level I and II Training in 2026. The Section for Trainee Affairs and Records prepared its map in 2026. AŠUK email of 10 June 2026 and note of the meeting at AŠUK on 21 May 2026.

[66] The DARNS FMC Working Group evaluated business processes in 2023 and 2025. In 2026, it evaluated them again and decided to update the business process map and allocate updating tasks. However, no changes to the existing map had been recorded by the time the draft report was prepared. Working Group for Establishing and Developing the FMC System and Risk Management Process, 25 March 2022, 11 October 2023 and 20 May 2026; note of the meeting at DARNS on 25 May 2026.

[67] The audit analysed MLJPI's internal organisation rulebook of 11 January 2013, its supplement of 23 July 2015, business process maps for 2021–2025, and MLJPI's emailed response of 18 June 2026, stating that “business process maps are prepared for all organisational units except the offices of the Minister and Deputy Minister, the Secretary, the Secretary with Special Assignment, and the Office of the Agent of the Council of Ministers before the European Court of Human Rights”. The internal organisation rulebook of the Agent's Office from 2006 and amendments from 2010, 2019 and 2023 were also analysed. The rulebook states that “the Office was established to perform professional and administrative tasks for the Agent of the Council of Ministers before the European Court of Human Rights” and “operates as an administrative organisation within MLJPI” (Article 1(2)). Article 36 stipulates that “this rulebook is considered an addendum to MLJPI's internal organisation rulebook”. This provision was confirmed by the 2019 and 2023 amendments.

SPS prepared its business process map in 2017 and has not updated it since. Comparison of the map and the internal organisation rulebook found that certain activities defined in the rulebook had not been identified in the map.[68] Incomplete business process mapping may leave some activities outside process identification and related risk management activities.

Unlike the other sampled institutions, the CHU has ensured continuous annual updating of its business process maps since 2016 through its FMC working groups.

Incomplete and outdated business process maps do not provide a reliable basis for identifying and assessing risks or enable timely recognition of changes and operational weaknesses. Consequently, the conditions for establishing risk registers and other FMC elements on the basis of the actual state of business processes have not been fully ensured. Management therefore lacks complete and reliable information on processes and associated risks.

3.1.3. Risk registers and their role in risk management

The audit found that the sampled institutions of BiH have established risk registers, but have not fully ensured their updating and connection to business processes. Although risk registers and business process maps are connected to some extent, certain risks identified in maps are not recorded in registers, while certain risks recorded in registers are not covered by maps. Consequently, risk registers do not provide a fully reliable basis for risk management and monitoring changes in institutional operations.

Risk registers are a key FMC element used to identify, assess and monitor risks that may affect the achievement of institutional objectives. They should enable timely risk identification and planning of mitigation measures, and provide management with the information needed to manage risks. To fulfil this purpose, risk registers should be current, based on business processes and adapted to changes in institutional operations.

Based on the data collected on the establishment and updating of risk registers, the following overview presents the situation in each sampled institution.

Table 4: Establishment and updating of risk registers in the sampled institutions of BiH

No.	Name of institution of BiH	Risk register established	Regular updates
1.	AŠUK	Partly	No
2.	CHU	Yes	Yes
3.	DARNS	Yes	No
4.	MLJPI	Yes	No
5.	SPS	Yes	No

Source: Audit Office, based on data from the sampled institutions of BiH

[68] Comparison of the 2017 Business Process Map and 2009 Internal Organisation Rulebook found that certain activities in the rulebook were not identified in the map. These include monitoring EU regulations and their incorporation into BiH legislation, organising study and other visits by the Director, and receiving domestic and foreign visitors. At the meeting on 13 May 2026, SPS representatives also stated that not all business processes had been mapped.

The analysis established that risk registers were not regularly updated in four of the five institutions, while one ensured regular updating. Analysis of business process maps and risk registers also found that the connection between the two documents was not fully ensured in two of the five sampled institutions. Certain risks identified in business process maps were not recorded in risk registers, while certain risks recorded in registers were not covered by maps.[69]

Although AŠUK initially established risk registers in 2017, continuous updating has not been established. Risk registers have not been established for all organisational units. Individual updates were recorded in certain organisational units, but updates were not made systematically and comprehensively across all units.[70]

In the CHU, risk registers have been established and regularly updated since 2017 through its FMC working groups. Risks are linked to business processes and cover operational, financial, strategic and compliance risks. Analysis of the business process map and risk register found that identified risks were linked to defined business processes and that the two documents were aligned.[71]

MLJPI established a risk register and updated it up to 2024, but made no update for 2025. Although business processes and identified risks are connected, until 2023 maps and registers were maintained in several separate documents, making the connection between processes and risks difficult to trace. Since 2023, this approach has improved through the establishment of a consolidated business process map and risk register.[72]

DARNS established a risk register and updated it in certain years. Working groups evaluated business processes and associated risks, and in some periods identified no need for changes.[73] However, continuity of updating was not ensured throughout the period examined. The business process maps and risk registers in DARNS were not fully aligned. Although some risks are taken directly from maps, such as recruitment and budget planning risks, certain risks recorded in registers are not covered by maps, such as potential errors in e-auctions and risks associated with registry office operations, and were added to the risk register later. The business process map has not been updated since its adoption in 2020, further limiting

[69] In DARNS, certain risks recorded in risk registers were not covered by business process maps, while in SPS, certain main risks identified in the map were absent from the risk register.

[70] According to AŠUK's email of 10 June 2026 and notes of the meeting on 21 May 2026, risk registers for all organisational units except the Section for Trainee Affairs and Records were established in 2017. All units updated their registers in 2021, while the Section for Delivery of Professional Training and Level I and II Training updated its register again in 2026. The Section for Trainee Affairs and Records has no risk register.

[71] These statements are based on the CHU MoFT BiH's Decision Appointing the Working Group to Update the Business Process Map and Risk Register for 2021, Ref. 03-1-34-7-106-1/21 of 10 May 2021; Working Group Report on Updating the Business Process Map and Risk Register, Ref. 03-1-34-7-106-2/21 of 30 July 2021; corresponding appointment decision for 2022, Ref. 03-1-34-7-225-1/22 of 6 September 2022; updating report, Ref. 03-1-34-7-225-2/22 of 31 October 2022; corresponding appointment decision for 2023, Ref. 03-1-34-7-164-1/23 of 10 May 2023; updating report, Ref. 03-1-134-7-164-2/23 of 30 June 2023; CHU MoFT BiH Risk Register of 28 April 2025; and note of the meeting at the CHU on 6 May 2026.

[72] The analysis was based on MLJPI's business process maps and risk registers for 2021–2024, covering individual organisational units (Human Rights Sector, Diaspora Sector, Gender Equality Agency of BiH, Sector for General Legal Financial and Material Affairs, and others) and the consolidated Business Process Book and Risk Register for 2023/2024.

[73] DARNS established its risk register in 2020. Evaluation and updating took place in 2022 and 2023. No updating activities took place in 2024; in 2025, the FMC Working Group evaluated it and concluded that no changes were needed. Another update of the business process map and risk register was planned for 2026.

alignment between the documents and making changes in identified risks more difficult to monitor.[74]

SPS adopted a risk register but has not updated it since its establishment. Analysis of the business process map and risk register found that they were not fully aligned, as certain main risks identified in the map were not included in the register. The register therefore does not fully reflect all identified risks associated with SPS business processes and is not used to its full potential as a tool for risk management and managerial decision-making.[75] As the PIFC application enables business processes and risks to be linked, timely recording and updating of maps and registers in the application helps avoid these discrepancies.

The weaknesses in updating risk registers and connecting them to business process maps arise from insufficiently established systematic and continuous risk monitoring. Some institutions manage risks without a comprehensive approach involving regular reviews of risks in light of changes in business processes. As a result, risk registers do not fully reflect institutions' actual risk situation, limiting their use as risk management tools. Incomplete and outdated registers prevent timely identification and monitoring of risks, potentially affecting the efficiency of internal controls and management decisions. These weaknesses can be linked to the previously identified shortcomings in the alignment of internal organisation rulebooks and updating of business process maps, which together underpin the establishment and development of institutional risk management systems.

3.1.4. Annual operational or action plans to improve the FMC system

Analysis of operational or action plans in the sampled institutions of BiH found differing approaches to planning FMC improvement activities. Some institutions do not adopt plans, while others adopt them inconsistently. In most cases, measures in the action plans analysed concern activities to be carried out and documents to be produced. Defining measures in this way does not make their contribution to risk management and improvement of the FMC system clear.

Operational or action plans link identified risks with activities that institutions plan to undertake to improve the FMC system and manage risks. They should ensure a planned approach to implementing measures, define responsibilities clearly and enable progress in improving the FMC system to be monitored. Action plans should therefore be based on identified risks and contain information enabling implementation and results to be monitored.

[74] The analysis was based on the DARNS Business Process Map, Ref. 04-02-2-713/20 of 24 April 2020; risk registers of 24 April 2020, 28 March 2022 and 10 October 2023; minutes of the Working Group for Establishing and Developing the FMC System and Risk Management Process of 25 March 2022, 11 October 2023 and 20 May 2026; and note of the meeting at DARNS on 25 May 2026. Certain risks recorded in registers had been added later and were not identified in the business process map, such as potential e-auction -errors and a vacant registry office position.

[75] The analysis was based on the Service for Foreigners' Affairs' 2017 Business Process Book (Map) and 2019 Risk Register. Comparison found that some main risks in the map were absent from the register. For example, the main risk for organising expert collegium meetings was poor preparation of meeting materials, but this was not recorded in the register for the same process. Similarly, late submission of documents for translation was identified as the main translation risk in the map but was absent from the register.

During the period examined, 2021–2025, the sampled institutions took differing approaches to action planning, indicating uneven development of the planning of FMC improvement measures.

Table 5: Preparation of action plans and measures

No.	Name of institution of BiH	FMC improvement action plans prepared in 2021–2025	Measurable indicators of implementation
1.	AŠUK	Partly	No
2.	CHU	Yes	No
3.	DARNS	Partly	No
4.	MLJPI	Partly	No
5.	SPS	No	No

Source: Audit Office, based on data from the sampled institutions

The analysis found that only one sampled institution ensured continuity in preparing operational or action plans.[76] Preparation was partial in three of the five sampled institutions[77]: two did not ensure continuity[78], and one could not link measures to identified risks in the risk register[79]. One of the five sampled institutions did not prepare FMC improvement action plans.[80]

None of the sampled institutions defined measurable indicators of implementation that would allow the effects of measures on risk management to be assessed. Content analysis of action plans found that measures were mostly defined as activities, while implementation indicators mainly confirmed that planned activities had been carried out. Available information does not clearly show the results of measures implemented or their contribution to improvement of the FMC system.[81]

These limitations also affect the information provided through the FMC system on the implementation of risk management and FMC improvement measures. Available information mainly concerns activities performed and documents produced, while information on results and effects is insufficient. It is therefore not possible to reliably assess how implemented measures contribute to risk management and improvement of the FMC system. Further information on FMC reporting arrangements in the sampled institutions is provided in Annex 2.

[76] CHU
[77] AŠUK, DARNS and MLJPI
[78] AŠUK and MLJPI
[79] DARNS
[80] SPS
[81] In AŠUK, implementation is monitored through indicators such as an updated risk register, data entered in the PIFC application, and adoption of an internal act. CHU indicators include training organised, internal procedures updated, a consolidated report prepared, and a training plan and programme adopted. DARNS prepares annual operational action plans for the Strategy for the Development of Public Internal Financial Control that are not linked to risk register risks. MLJPI indicators include updated business processes and risk registers, guidance prepared, and internal procedures updated.

AŠUK prepared action plans only for certain years, and its measures and implementation indicators focus on carrying out activities, making their effects on risk management unclear.[82] The CHU ensures continuity in preparing and monitoring action plans, but implementation indicators mainly concern activities performed and documents produced, so the effects of measures on improving risk management are unclear.[83]

DARNS prepares action plans consistently, but the audit could not clearly link their planned measures to risks in the risk register because the plans are based on the annual operational action plans of the Strategy for the Development of Public Internal Financial Control. Their role as a risk management instrument therefore cannot be fully assessed.[84] MLJPI adopted action plans for most years examined, but did not ensure continuity. Its implementation indicators mainly concern activities performed and documents produced, making it unclear what improvements in risk management were achieved.[85] SPS does not prepare action plans, leaving no basis for systematically planning and monitoring FMC improvement measures.[86]

These weaknesses limit the use of action plans as a basis for risk management and improvement of the FMC system. Consequently, action plans in most sampled institutions do not provide a reliable basis for planning and improving FMC system activities.

3.1.5. Weaknesses of the PIFC application as a tool supporting the FMC system

The Application for Monitoring, Managing and Reporting on the Financial Management and Control System and Internal Audit in the Institutions of BiH (PIFC application) has not fully provided functional support for risk management, monitoring and FMC reporting. Limitations were identified concerning continuity of operation, data availability, use of certain functions, further development, and the ability to consolidate FMC improvement activities.

The PIFC application is a key tool for improving internal control in the institutions of BiH, and the CHU is responsible for its use and functional enhancement. It is used to manage and report

[82] AŠUK prepared action plans for 2023 and 2024 but not for other years examined. Measures are defined as general activities, such as risk assessment and PIFC data entry, risk register updates, establishing a business process database, and regulating participants' roles and responsibilities. Performance indicators concern completion of those activities, such as an updated risk register or an internal act established. Annual Action Plans for the Strategy for the Development of Internal Control in AŠUK for 2023 and 2024.

[83] CHU measures mainly concern carrying out activities, such as organising training, adopting a training plan and programme, preparing a consolidated report, and updating procedures. Reports on Implementation of Measures from the Annual Action Plan for FMC Improvement in the CHU for 2020, 2021, 2022, 2023, 2024 and 2025, and Annual Action Plans for FMC Improvement in the CHU for 2021, 2022, 2023, 2024 and 2025).

[84] Review of DARNS' Annual Operational Action Plans for the Strategy for the Development of Public Internal Financial Control for 2021, 2022, 2023 and 2024 and risk registers from 2020, 2022 and 2023 did not establish a clear link between planned measures and risks. DARNS interviewees stated that action plans were based on the Strategy's annual operational action plans, while action plans linked to risk register risks have been prepared through the PIFC application since 2026. Note of the meeting on 25 May 2026 and the 2026 risk register and action plan from the PIFC application.

[85] MLJPI submitted action plans for 2022, 2023 and 2024, but none were prepared for 2021 or 2025. Implementation indicators mainly concern activities such as updating business processes, risk registers and internal procedures, preparing guidance and documents, and similar tasks. Action Plans for the Strategy for the Development of Internal Control in MLJPI for 2022, 2023 and 2024. MLJPI email of 16 July 2026.

[86] Notes of meetings at SPS BiH on 26 February 2026 and 13 May 2026.

on the FMC system and support internal audit activities. The PIFC application was not operational from February 2024 to February 2025.[87]

After the PIFC application was restored in February 2025, some reported operational problems and requests for functional improvements remained unresolved.[88] Reported problems concerned the inability to edit certain business processes and the ability of CHU employees to modify data entered by the institutions of BiH. CHU employees also cannot extract risk register data for a single institution, including the CHU itself, or produce a business process map for a single institution.

The CHU is unable to adapt the PIFC application to potential institutional needs. The application currently does not allow the structure of key FMC elements to be adapted where an institution requires it.[89] No read-only access has been established, so authorised users cannot be granted viewing rights without the ability to modify data. Nor does the application provide an audit trail of changes to data on key FMC elements. The Commission for Monitoring and Reporting on Activities Relating to the PIFC Application also identified as a problem the ability of CHU employees with application access to modify data entered by the institutions of BiH.[90]

According to CHU data, complete business process map and risk register data are unavailable in the PIFC application for 10 of the 79 institutions of BiH. Eight institutions have neither a map nor a risk register recorded, while one has no risk register recorded. The CHU lacked data for four institutions because access to their recorded data had been disabled at their request on confidentiality grounds.[91] This indicates that data available through the application do not provide a complete and reliable picture of the establishment of key FMC elements across all institutions, limiting its use as a tool supporting risk management and system improvement.

The PIFC application does not enable consolidated monitoring of all activities relevant to FMC system improvement. It does not allow the recording of unified action plans covering internal audit recommendations, the Audit Office's recommendations, and activities arising from annual operational action plans for developing public internal financial control. According to the CHU, this limitation has been recognised as a problem and will be a priority in future upgrades.[92]

[87] Reports of the Commission for Monitoring and Reporting on Activities Relating to the PIFC Application in the CHU for May 2024–July 2026. An operational interruption was recorded during this period, together with unresolved issues whose resolution depends on securing the application's source code. Note of the CHU meeting on 6 May 2026. Similar problems were identified in the earlier performance audit "Establishing and Ensuring Functional Internal Audit in the Institutions of BiH" (2024), which found that the application had not operated continuously, users faced difficulties, and the CHU and MoFT had not ensured continuous and uninterrupted operation of the internal audit module.

[88] Reports of the Commission for Monitoring and Reporting on Activities Relating to the PIFC Application in the CHU for February 2025–July 2026.

[89] If an institution is represented as one organisational entity in the PIFC application but needs to be displayed as several separate units, these changes currently cannot be made without the application's source code.

[90] Report of the Commission for Monitoring and Reporting on Activities Relating to the PIFC Application in the CHU for July 2026. CHU email of 15 September 2026.

[91] CHU records of 8 September 2026.

[92] CHU emails of 8 September 2026 and 11 September 2026.

3.2. Monitoring and assessment of the FMC system in the institutions of BiH

Existing monitoring and assessment mechanisms do not provide reliable information on the actual operation and progress of the FMC system in the institutions of BiH.

The audit found that the CHU's monitoring and assessment of the FMC system do not provide sufficiently reliable information on its actual operation. Monitoring and assessment aim to identify system weaknesses, determine improvement measures and monitor development progress. The CHU conducts these activities through annual and individual quality assessments and reports the results to the Council of Ministers of BiH. The findings from the analysis of these activities are presented below.

3.2.1. Annual quality assessment of the FMC system in the institutions of BiH

The CHU conducts an annual quality assessment of the FMC system based on institutions' annual FMC self-assessment reports and prepares a consolidated report. Analysis of the consolidated reports found that the CHU cannot verify the accuracy and reliability of the data submitted.[93] The consolidated reports therefore aggregate submitted data without clearly distinguishing their reliability, limiting the assessment of the system's actual condition. The CHU also highlighted limitations in the accuracy and reliability of annual FMC reporting data in earlier consolidated reports. However, inconsistent and contradictory institutional responses potentially affecting the quality of the assessment were explicitly highlighted only in the Consolidated Report for 2025.[94]

The CHU's recommendations in consolidated reports submitted to the Council of Ministers stem from identified FMC system weaknesses but are not linked to the specific institutions in which those weaknesses were identified. They do not distinguish between the institutions to which they apply, making it impossible to establish which institutions particular recommendations concern or to monitor progress in addressing weaknesses across reporting periods.

Consequently, during the period examined, the CHU's recommendations in consolidated reports largely recurred from year to year, as did the Council of Ministers' conclusions when considering those reports. [95]

The ability to use PIFC application data for supervision, monitoring and assessment of the FMC system has not been fully ensured. Recorded data should serve heads of institutions as a management tool for monitoring risks, controls and achievement of institutional objectives. Heads of institutions have no direct read-only access to business process maps, risk registers or annual FMC report forms. They access these data through persons granted the appropriate application permissions.[96]

Internal audit units can access risk registers for the institutions within their remit through the PIFC application, but cannot access business process maps. The application currently does

[93]Consolidated Annual Reports on the FMC System in the Institutions of BiH for 2021, 2022, 2023, 2024 and 2025. Consolidated Reports.

[94] The CHU reported this in the Consolidated Annual Report on FMC in the Institutions of BiH for 2025 (Ref. 03-1-16-8-4-83/26 of 27 March 2026).

[95] Consolidated Reports

[96] CHU emails of 8 September 2026 and 10 September 2026.

not provide read-only data access for external audit.[97] These limitations reduce the ability to use application data for supervision, monitoring and assessment of the FMC system.

3.2.2. Individual quality assessment of the FMC system in the institutions of BiH

The audit found that individual quality assessments identify FMC system weaknesses and provide improvement recommendations, but their limited coverage and reporting on recommendation implementation do not enable a reliable assessment of progress in improving the system in the institutions of BiH.

Analysis of individual FMC quality assessments found that the CHU conducts them on a limited scale, covering one or two institutions annually. Between 2023 and 2025, the CHU conducted four individual quality assessments, indicating that monitoring of the FMC system's actual functionality is currently limited.[98] Such assessments cover a small number of institutions compared with the total included in the FMC system.[99]

The audit found that the CHU does not document its selection of institutions for individual quality assessments, making it impossible to confirm how the criteria were applied when selecting the institutions assessed.[100] The Rulebook on Quality Assessment of the FMC System requires selection to be based on identified and assessed risks in risk registers, observed FMC weaknesses and other available information.[101] The audit also found that institutions with FMC weaknesses recurring in audit reports over several consecutive reporting periods had not been selected. Annual individual quality assessment plans for 2023–2026 provide no explanation of how the criterion concerning information on FMC weaknesses in annual FMC reports, audit reports or other sources was applied.[102]

Individual quality assessments identify common FMC weaknesses and define improvement recommendations, but available data do not enable a reliable assessment of progress achieved through their implementation. Analysis of four individual FMC quality assessment reports prepared by the CHU in 2023–2025[103] found that the assessments identify weaknesses in detail and result in a significant number of improvement recommendations. In the four

[97] CHU email of 10 September 2026.
[98] Four individual quality assessments were conducted: MLJPI (2023), MoFT (2024), and MKP and ALMS (2025). Two assessments, in SZP and ASH, were planned for 2026.
[99] The CHU states that it lacks sufficient human resources to conduct more individual quality assessments annually. Note of the meeting at the CHU, 17 February 2026.
[100] When selecting institutions, the CHU follows the Rulebook on Quality Assessment of the FMC System in the Institutions of BiH and its prescribed criteria. It reviews annual FMC reports and institutional risk registers in the PIFC application and uses them to adopt the Annual Plan for Individual FMC Quality Assessments for each calendar year. CHU email documentation of 7 July 2026.
[101] The Rulebook on Quality Assessment of the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 22/22) regulates FMC quality assessment procedures. Its selection criteria for individual assessments are: (a) identified and assessed residual risks in risk registers concerning public financial management, procurement, human resources management, legal affairs, information technology and institution-specific business processes; (b) identified and assessed risks in operations and public service delivery, considered against available budgets, staff numbers, asset values and IT systems; (c) information on FMC weaknesses in annual FMC reports, audit reports or other sources.
[102] Annual Plans for Individual Quality Assessment of the FMC System in the Institutions of BiH for 2023, 2024, 2025 and 2026.
[103] Individual FMC Quality Assessment Reports for MLJPI (2023), MoFT (2024), MKP (2025) and ALMS (2025).

assessments, the CHU issued 91 recommendations[104], while all four institutions received the overall internal control assessment "Established". Analysis of these reports shows that all assessed institutions have established basic FMC elements, including organisational arrangements for system development, business process maps and risk registers. At the same time, similar weaknesses were identified in all institutions, primarily concerning risk management, fraud risk assessment, managers' FMC responsibilities, control activities, reporting and use of FMC information in management.[105] Further details on common features and weaknesses identified through individual quality assessments are provided in Annex 3.

Information on recommendation implementation enables only implementation status to be monitored; it does not enable reporting to the Council of Ministers of BiH on progress in improving the FMC system.[106] Following individual quality assessments, institutions submit implementation reports to the CHU. The CHU reports their implementation status to the Council of Ministers through consolidated reports.

Comparison of MLJPI's reports on implementation of individual FMC quality assessment recommendations for 2024 and 2025[107] found that four of the 26 recommendations remained unimplemented in both reporting periods, while a larger number remained "in progress".[108] These recommendations particularly concern risk management, planning risk mitigation measures and control activities, all key FMC elements. It is therefore impossible to reliably assess the extent to which individual quality assessments and action taken on their recommendations contribute to FMC improvements. Through consolidated reports, the Council of Ministers receives information on implementation status but lacks information enabling it to assess how far the activities undertaken have improved the operation of the FMC system.

This indicates that individual quality assessments are useful for identifying FMC system weaknesses and defining improvement recommendations. However, their limited coverage relative to the total number of institutions and the reporting arrangements for recommendation implementation do not fully provide the information needed to assess progress in improving the FMC system.

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[104] Across the four assessments, the CHU issued 91 FMC improvement recommendations: 26 to MLJPI, 22 to MKP, 18 to MoFT and 25 to ALMS.

[105] Analysis of the four individual FMC quality assessments in MLJPI, MoFT, MKP and ALMS found that basic FMC elements were established in all assessed institutions, including organisational arrangements, business process maps and risk registers. At the same time, all had similar weaknesses in risk management, managerial accountability, fraud risk assessment, control activities and FMC reporting.

[106] Article 6 of the Rulebook on Quality Assessment of the FMC System in the Institutions of BiH (Official Gazette of BiH, No. 22/22). A general objective of FMC quality assessment is to report to the Council of Ministers on the state of, progress in, and planned measures for improving the FMC system in the institutions of BiH.

[107] Reports on Implementation of Recommendations from Individual FMC Quality Assessment of 26 February 2025 and 13 February 2026.

[108] Of the 26 recommendations issued to MLJPI through the individual FMC quality assessment for 2023, the 2025 implementation report states that 9 were implemented, 13 remained "in progress" and 4 were unimplemented. Implemented recommendations mainly concern the control environment (aligning the internal organisation rulebook, strengthening the finance unit's role, training records and reporting), certain risk management aspects, and audit recommendation follow-up. Unimplemented recommendations concern recording risk response measures in the PIFC application, identifying and recording fraud risks, analysing organisational changes' impact on internal controls, and regulating key business processes through control activities. Some recommendations still "in progress" concern risk management and reporting, planning risk mitigation measures, control activities, application integration and FMC reporting.

4. CONCLUSIONS

The Audit Office conducted a performance audit study entitled “Financial Management and Control in the Institutions of BiH”. The audit showed that the sampled institutions are not efficient in ensuring a functional financial management and control system. Although most have established the key FMC elements, their interconnection and use do not ensure that the system functions as reliable support for risk management and decision-making. At the same time, the CHU's monitoring and assessment activities do not provide information on which progress in improving the FMC system can be reliably assessed.

The FMC system in the sampled institutions still does not function as an interconnected system linking business processes, risks, planned measures and information on implementation results. The contribution of measures implemented to risk management and FMC system improvement therefore cannot be reliably assessed.

4.1. The sampled institutions of BiH are not efficient in ensuring the establishment, implementation and operation of the financial management and control system

The audit found that the sampled institutions are not efficient in ensuring the establishment, implementation and operation of the financial management and control system. Although most have established key FMC elements, their interconnection and use for management purposes do not enable the system to provide comprehensive support for risk management and decision-making.

The audit found that internal organisation rulebooks, business process maps, risk registers and action plans are not fully aligned and interconnected. The conditions for using identified risks as the basis for planning mitigation measures, monitoring implementation and assessing results have therefore not been fully ensured.

The sampled institutions have also not defined measurable implementation indicators enabling the effects of measures on risk management to be assessed. Information provided through the FMC system mainly concerns activities performed and documents produced, while information on results and effects is insufficient. Implemented measures' contribution to risk management and system improvement cannot therefore be reliably assessed, nor can the FMC system provide reliable support for risk management and decision-making.

The audit also found that the PIFC application has not fully fulfilled its purpose as a tool supporting the FMC system. It has not been continuously available. Complete business process map and risk register data are unavailable for some institutions. Certain functional limitations remain unresolved because the application's source code is unavailable. The application does not enable consolidated monitoring of all activities relevant to FMC improvement, including measures and activities in unified FMC improvement action plans. Functions for supervising and using application data have also not been fully ensured, including read-only access for FMC monitoring and assessment and functions to record and track changes to application data.
Given that the Law on Financing the Institutions of BiH makes the head of an institution responsible for establishing, developing and implementing its FMC system, the weaknesses identified indicate that the sampled institutions have not ensured operation of the system in a way that enables its use as a risk management and decision-support tool.

4.2. The CHU has not ensured efficient monitoring and quality assessment of the financial management and control system in the institutions of BiH

The CHU's annual quality assessment activities do not constitute an efficient mechanism for improving the FMC system. Although consolidated reports provide information on the system's condition, degree of establishment and development activities, their recommendations are not linked to the specific institutions in which the relevant weaknesses were identified. They therefore do not direct improvement activities clearly enough towards institutions where weaknesses are most pronounced. This is also indicated by the recurrence of certain weaknesses and recommendations from year to year. In addition, the limited reliability of some underlying data makes it difficult to assess the system's actual condition and progress, reducing the reports' value as a basis for informing the Council of Ministers about its state and development.

The ability to use PIFC application data for supervision, monitoring and assessment of the FMC system has also not been fully ensured, further limiting information available to assess actual system operation. The application has not fully supported these needs because of operational interruptions, unresolved functional shortcomings, the absence of read-only access and a data change audit trail, limited data availability and the inability to consolidate all relevant information. Complete business process map and risk register data are unavailable for some institutions, so application data do not provide a complete picture of the establishment of the FMC system across the institutions of BiH.

Individual quality assessments are a better tool for examining the actual operation of the FMC system because they identify specific weaknesses and provide recommendations tailored to individual institutions. However, analysis showed similar weaknesses in all assessed institutions, while available implementation data provide an insufficient basis for assessing progress in improving the FMC system. The Council of Ministers needs information both on implementation status and on the effects of activities undertaken. This indicates that establishing basic organisational and regulatory conditions for FMC development does not, in itself, ensure comprehensive and functional implementation in practice.

The small number of individual quality assessments relative to the total number of institutions limits this mechanism's ability to have a more significant impact on FMC improvement across the institutions of BiH. In these circumstances, a longer period is needed to cover more institutions, and existing results do not provide a sufficient basis for reliably assessing the effects of assessments and recommendation implementation on remedying weaknesses and improving the FMC system.
Consequently, consolidated reports do not provide the Council of Ministers with a comprehensive basis for assessing the effects of individual quality assessments on FMC system improvement in the institutions of BiH.

The CHU's monitoring and assessment activities therefore still do not constitute a sufficiently efficient mechanism for continuous improvement of the financial management and control system in the institutions of BiH.

5. RECOMMENDATIONS

Based on the findings and conclusions reached during the audit, the Audit Office issues recommendations to the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH and the sampled institutions of BiH to improve the financial management and control system. To address the shortcomings identified and improve the efficiency of the system, the Audit Office of the Institutions of BiH recommends the following:

Recommendation to the sampled institutions of BiH

- **Ensure that the key elements of the financial management and control system are aligned and interconnected so that they support risk management and decision-making.**

This recommendation requires the institutions of BiH to align FMC responsibilities with current regulatory requirements and define them clearly in internal organisation rulebooks. Business process maps, risk registers, action plans, and information on implementation and its effects should also be interconnected and aligned with changes in institutional operations. Identified risks should arise from business processes, and appropriate management measures should be defined for significant risks. Implementation of risk management measures should be monitored in a way that enables their results and impact on risk reduction to be assessed. Information on risks, implementation and results should also be used in management decisions.

Recommendations to the CHU

- **Improve the monitoring and conduct of annual quality assessments to improve the financial management and control system in the institutions of BiH.**

For more efficient FMC monitoring and assessment, improve the analysis of available information on system operation and reporting to the Council of Ministers on the limitations of those data. Recommendations in consolidated reports should be directed more closely towards institutions with similar identified weaknesses to ensure action to address them.

- **Improve the monitoring and conduct of individual quality assessments to strengthen their impact on improvements to the financial management and control system in the institutions of BiH.**

This recommendation requires documenting the application of selection criteria for individual quality assessments in accordance with the Rulebook on Quality Assessment of the FMC System in the Institutions of BiH, including the use of information on weaknesses in annual FMC reports, audit reports and other available sources. The results of individual quality assessments and information on recommendation implementation should also enable progress in improving the FMC system to be assessed, so that the Council of Ministers receives information both on implementation status and on the effects of activities undertaken, enabling it to assess progress in improving the FMC system in the institutions of BiH.

- **Ensure the conditions for enhancing the functionality of the PIFC application so that it can be used more efficiently as a tool supporting risk management and improvement of the financial management and control system in the institutions of BiH.**

This recommendation entails continuing efforts to resolve the issue of the PIFC application's source code and address identified functional limitations. The availability and use of recorded data should be improved, and functions enabling consolidated monitoring of FMC improvement activities should be ensured. Read-only access to application data should also be provided for system supervision and assessment, together with functions to record, track and review changes to application data. This would create the conditions for fuller use of the PIFC application to support risk management, monitoring and improvement of the FMC system in the institutions of BiH.

Performance audit team:

Team Leader and Senior Auditor for Performance Audit Quality Control, Methodology and Planning

Jasna Ćesir, sgd.

Head of the Department for Performance Audit Quality Control, Methodology and Planning

Radivoje Jeremić, sgd.

Team Member and Independent Auditor for Performance Audit Quality Control, Methodology and Planning

Davorka Lučić, sgd.

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6. ANNEXES

Annex 1: Overview of internal acts for establishing and developing the FMC system in the sampled institutions of BiH

Annex 2: Reporting arrangements for the FMC system in the sampled institutions of BiH

Annex 3: Common features and weaknesses identified through individual quality assessments of the FMC system

Annex 4: References

Annex 1: Overview of internal acts for establishing and developing the FMC system in the sampled institutions of BiH

In 2016, AŠUK adopted a decision appointing the person responsible for establishing and developing the FMC system and risk management process and the FMC Working Group[109]. This person leads the Working Group and coordinates its activities. The group is responsible for, and authorised to establish, the FMC system, particularly through: listing and describing business processes; preparing the business process map; establishing the control environment; coordinating risk identification and assessment; coordinating the determination of risk responses; establishing control activities comprising written policies and procedures; establishing an information and communication system; establishing a system of controls and ensuring FMC operation; determining how to monitor and assess the adequacy of the FMC system; and preparing an Action Plan for Establishing and Developing FMC. In 2016, AŠUK also adopted the Decision Establishing the Risk Register at Organisational Unit Level[110], assigning the FMC Working Group and the coordinator for establishing and developing the FMC system and risk management process responsibility for collecting data on identified risks, recording them in the risk register and updating the register at least annually. In 2022, AŠUK adopted its Risk Management Strategy[111], followed in 2023 by the Decision on Implementing Recording and Managing Risks in AŠUK[112], requiring heads of internal organisational units to enter FMC data in the PIFC application and inform the Director about risk management at least twice a year.

The CHU adopts an annual decision appointing a Working Group to Update the Business Process Map and Risk Register[113]. Its tasks include: updating the business process map; updating the risk register in relation to business process objectives and planning document objectives; assessing the likelihood of risks and their impact on business process objectives; identifying risks affecting objectives in the Medium-Term Work Plan and Annual Work Programme; assessing their likelihood and impact on those objectives; quantifying impacts where possible; assessing the adequacy of responses to potential unacceptable risks; preparing a report on implementation of measures against the working group's report on updates to the business process map and risk register, with proposals for further FMC improvement; and preparing an Action Plan for FMC Improvement in the CHU.

In 2020, DARNS adopted its FMC Rulebook[114], stipulating that heads of sectors establish financial management and control over business processes in their sectors and that all employees implement FMC. In 2023, DARNS appointed a Working Group for Establishing and Developing the FMC System and Risk Management Process and a coordinator to lead it[115]. In 2025, a new working group and coordinator were appointed[116]. The group is responsible for,

[109] Decision Appointing the Person Responsible for Establishing and Developing the FMC System and Risk Management Process and the FMC Working Group (Ref. 19-6.2-02-2-436/16, 6 December 2016);
[110] Decision Establishing the Risk Register at Organisational Unit Level in AŠUK (Ref. 19-6.2.02-2-436-2/16, 16 December 2016);
[111] AŠUK Risk Management Strategy (Ref. 19-6.3-16-1-70/22, 28 February 2022);
[112] Decision on Implementing Recording and Managing Risks in AŠUK (Ref. 19-6-02-2-40-1/23, 2 February 2023);
[113] Decisions Appointing the Working Group to Update the Business Process Map and Risk Register in the CHU MoFT BiH for: 2021 (Ref. 03-1-34-7-106-1, 10 May 2021); 2022 (Ref. 03-1-34-7-225-1/22, 6 September 2022); 2023 (Ref. 03-1-34-7-164-1/23, 10 May 2023); 2024 (Ref. 03-1-34-7-234-1/24, 20 May 2024); and 2025 (Ref. 03-1-34-7-110-1/25, 3 March 2025);
[114] FMC Rulebook in DARNS (Ref. 04-16-223/20, 12 March 2020);
[115] Decision Appointing the Working Group for Establishing and Developing the FMC System and Risk Management Process (Ref. 04-34-14-1161-1/23, 27 September 2023);
[116] Decision Appointing the Working Group for Establishing and Developing the FMC System and Risk Management Process (Ref. 04-34-12-1470-1/25, 10 October 2025);

and authorised to establish, the FMC system, particularly through: listing and describing business processes; preparing the business process map; establishing the control environment; coordinating risk identification and assessment; coordinating the determination of risk responses; establishing control activities comprising written policies and procedures; establishing an information and communication system; establishing a system of controls and ensuring FMC operation; determining how to monitor and assess the adequacy of the FMC system; and preparing an Action Plan for Establishing and Developing FMC. In 2026, DARNS adopted a new FMC Rulebook[117] and Risk Management Strategy[118].

In 2016, MLJPI adopted a decision appointing an FMC Working Group and amended it in 2022[119]. Its tasks are: listing and describing business processes; preparing the business process map; establishing the control environment; coordinating risk identification and assessment; coordinating the determination of risk responses; establishing control activities comprising written policies and procedures; establishing an information and communication system; establishing a system of controls and ensuring FMC operation; and determining how to monitor and assess the adequacy of the FMC system. In 2016, MLJPI also appointed an officer to coordinate the establishment of the risk management process, followed by a new appointment decision in 2022[120]. The coordinator's tasks are: coordinating institutional risk management in accordance with the methodology prescribed in the Risk Management Guidelines for the Institutions of BiH — Version II; promoting a risk management culture and supporting managers and employees assigned risk management authority and responsibilities; working with the CHU to inform persons responsible for entering risk register data of all operational details; monitoring whether these persons enter and update data in accordance with the prescribed methodology and agreed deadlines; coordinating reports on the status of the most significant risks for management meetings; and preparing a consolidated institutional risk management report.

In 2017, SPS adopted its FMC Rulebook[121], appointed a Working Group to Prepare the Process Map and Risk Register[122], and appointed an FMC officer responsible for coordinating the establishment of the risk management process[123]. The Rulebook stipulates that managers at all organisational levels establish financial management and control over business processes in their units and that all employees implement FMC. The FMC officer's duties include: monitoring and evaluating the overall internal control system; coordinating internal control development and implementation; monitoring identified shortcomings and required corrective action; ensuring all employees know the procedures and policies and receive appropriate internal control training; reporting as required by internal and external users; working with the CHU to inform other managers about the need to introduce risk management, with particular reference to the Guidelines for Implementing the Risk Management Process; developing a risk management culture and supporting effective risk management by raising

[117] FMC Rulebook in DARNS (Ref. 04-02-2-415/26, 4 March 2026);
[118] DARNS Risk Management Strategy (Ref. 04-02-2-415-2/26, 4 March 2026);
[119] Decision Appointing the FMC Working Group in MLJPI (Ref. 01-02-2-2761-1/16, 28 September 2016); Decision Amending the Decision Appointing the FMC Working Group in MLJPI (Ref. 01-02-2-2761-2/22, 1 June 2022);
[120] Decision Appointing an Officer to Coordinate Establishment of the Risk Management Process in MLJPI (Ref. 01-02-2-2758-1/16, 28 September 2016); Decision Appointing the Coordinator for Establishing the Risk Management Process in MLJPI (Ref. 01-02-2-913-1/22, 1 June 2022);
[121] FMC Rulebook in SPS (Ref. 18.1-02.2-345/17, 17 January 2017);
[122] Decision Appointing the Working Group to Prepare the Process Map and Risk Register (Ref. 18.1-34.6-442/17, 18 January 2017);
[123] Decision Appointing the FMC Officer Responsible for Coordinating Establishment of the Risk Management Process in the Service for Foreigners' Affairs (Ref. 18.1-02.2-948/17, 9 February 2017);
Decision Appointing the FMC Officer Responsible for Coordinating Establishment of the Risk Management Process in the Service for Foreigners' Affairs (Ref. 18.1-34.2-21-1/22, 19 January 2022);

senior management's awareness of the need for systematic risk management; working with heads of organisational units to initiate risk management activities and set deadlines; and preparing a consolidated risk management report. In 2017, SPS also appointed a Commission for Monitoring FMC Operation[124] under its FMC Rulebook. The Commission is tasked with: performing FMC duties and providing expert and other necessary assistance to heads of organisational units in establishing, implementing and developing the FMC system; monitoring and assessing the overall system; considering annual risk management reports submitted by heads of units; reporting to the Director on internal controls in organisational units; preparing the draft annual FMC report for the CHU; and proposing internal control improvements. In 2018, SPS adopted a Risk Management Strategy[125].

Analysis of internal acts shows that the sampled institutions adopted various instruments to establish and develop financial management and control, including FMC rulebooks, risk management strategies, and decisions appointing FMC working groups and risk management coordinators. They thereby established organisational and regulatory conditions for FMC system development.

However, the existence of these acts does not necessarily mean that FMC responsibilities are regulated as required by the Council of Ministers' 2018 Decision, nor does it in itself demonstrate a functional FMC system.

[124] Decision Appointing Members of the Commission for Monitoring FMC Operation (Ref. 18.1-02.2-995/17, 13 February 2017);
[125] SPS Risk Management Strategy, January 2018;

Annex 2: Reporting arrangements for the FMC system in the sampled institutions of BiH

Reporting to management is an important FMC element, providing heads of institutions with information on business processes, risks, implementation of planned measures and the operation of internal controls. Its purpose is not merely to describe activities undertaken, but to provide a basis for decisions and FMC improvement measures. Reporting should therefore include information enabling the results and effects of activities to be monitored, beyond their implementation alone.

The table presents FMC reporting arrangements for management in the sampled institutions, including information on implementation of FMC improvement measures and on their results and effects.

Table 1: FMC reporting arrangements

No.	Name of institution of BiH	FMC reports submitted to management	Implementation information submitted to management	Information on results and effects of action plan measures submitted to management
1.	AŠUK	No	No	No
2.	CHU	Yes	Yes	Partly
3.	DARNS	No	No	No
4.	MLJPI	Yes	Yes	Partly
5.	SPS	No	No	No

Source: Audit Office, based on data from the sampled institutions

The analysis found that in two of the five sampled institutions, management receives FMC reports and information on implementation of improvement measures. However, the information primarily concerns activities performed and documents produced and does not adequately enable the results and effects of measures to be assessed. [126] In two other sampled institutions, documented reporting to management on FMC and measure implementation has not been established, although certain FMC matters are considered and activities recorded in other ways. [127] In one of the five sampled institutions, FMC reporting to management has not been established at all.[128]

AŠUK has not established reports to management on implementation of FMC improvement measures. According to interviewees, FMC matters are discussed at expert collegium meetings, but no separate reports are prepared and there is no documented record of implementation or management conclusions.[129]

The CHU has established an FMC reporting system, including -implementation monitoring and regular reporting, representing a positive example compared with the other sampled

[126] CHU and MLJPI
[127] AŠUK and DARNS
[128] SPS
[129] Note of the meeting at AŠUK, 21 May 2026.

institutions.[130] However, its reports mainly contain information on activities performed and documents adopted, while information enabling the effects of implemented measures to be assessed is insufficient.

DARNS has not established reports to management on implementation of FMC improvement measures. Although its FMC Working Group monitors business processes and risk registers and records this in minutes, management does not receive reports enabling it to monitor the results of measures implemented and the effects of action taken.[131] Without documented reporting, there is a risk that management lacks complete and reliable information on the implementation of planned measures and progress in establishing and developing the FMC system.

MLJPI has established FMC reporting and submitted reports to management for 2023 and 2024, but not for the other years examined.[132] Reporting primarily reviews activities performed and planned measures, however, and provides insufficient information for assessing their effects.[133] According to MLJPI interviewees, the reports submitted are rarely discussed at management meetings.[134]

SPS has not established reporting to management on FMC or implementation of FMC improvement measures.[135]

The data show differences between the sampled institutions in FMC reporting arrangements, in terms of whether reporting is established, the content of information provided, and coverage of implementation, results and effects.

Annex 3: Common features and weaknesses identified through individual quality assessments of the FMC system

[130] Reports on Implementation of Measures from Annual Action Plans for FMC Improvement for 2021, 2022, 2023, 2024 and 2025, and Annual Action Plans for FMC Improvement for those years. The Decision Adopting the Action Plan requires organisational units to report on activities undertaken, while the working group submits a consolidated report to the Director.

[131] Review of minutes of the Working Group for Establishing and Developing the FMC System and Risk Management Process found that it considers business processes, risk registers and updating activities and adopts appropriate conclusions. The minutes of 22 May 2026 review activities undertaken to establish and develop the FMC system and define future working group activities. According to DARNS representatives, FMC and risk management matters are considered through the working group and discussions with the Director, but no separate reports are prepared on implementation of risk mitigation measures. (Note of the meeting at DARNS, 25 May 2026; FMC Working Group minutes of 25 March 2022, 10 October 2023, 11 December 2025 and 22 May 2026).

[132] Reports on FMC System Development in MLJPI for 2023 (11 January 2024) and 2024 (30 December 2024). According to interviewees, before 2023 management received only risk registers as notification that processes and risks had been updated. No FMC report was prepared for 2025.

[133] Report on FMC System Development in MLJPI for 2023, dated 11 January 2024, and the corresponding 2024 report, dated 30 December 2024, submitted to the Minister's Office and Secretary. They review action plan implementation and FMC development activities, such as updating business processes and preparing risk registers, updating internal procedures, preparing grant guidelines, adopting internal acts and holding working group meetings. This information confirms activity completion but does not enable its impact on FMC and risk management improvement to be assessed.

[134] MLJPI interviewees stated that FMC system development reports are rarely discussed at collegium meetings. In the section on improving “Information and Communication”, the 2024 FMC System Development Report identifies the need for mandatory presentation and discussion of key documents at collegium meetings. (Note of the meeting at MLJPI, 8 May 2026; Report on Financial Management and Control System Development in MLJPI for 2024).

[135] Note of the meeting at SPS, 13 May 2026.

Between 2023 and 2025, the CHU conducted four individual quality assessments of the financial management and control system in the institutions of BiH: the Ministry of Human Rights and Refugees (MLJPI), the Ministry of Finance and Treasury (MoFT), the Ministry of Communications and Transport (MKP), and the Agency for Medicinal Products and Medical Devices (ALMS). The reports show that all assessed institutions have established basic FMC elements, while similar weaknesses were identified in several components, as presented in the following table.

Table 1: Common features and weaknesses identified through individual quality assessments of the FMC system

Area	Weaknesses identified in MLJPI (2023)	Weaknesses identified in MoFT (2024)	Weaknesses identified in MKP (2025)	Weaknesses identified in ALMS (2025)
Basic FMC elements established (process maps risk registers organisational arrangements)	YES	YES	YES	YES
Overall FMC system rating "Established"	YES	YES	YES	YES
Need to improve risk management	YES	YES	YES	YES
Need to improve fraud risk assessment	YES	YES	YES	YES
Need to improve managers' FMC responsibilities	YES	YES	YES	YES
Need to improve control activities and their connection to risks	YES	YES	YES	YES
Need to improve FMC reporting	YES	YES	YES	YES
Need to improve use of FMC information in management	YES	YES	YES	YES
Need to improve IT support and information systems	YES	YES	YES	YES
Need to improve follow-up of audit recommendations and other corrective measures	YES	YES	YES	YES

Source: Audit Office, based on CHU individual FMC quality assessment reports for MLJPI (2023), MoFT (2024), MKP (2025) and ALMS (2025).

Ministry of Human Rights and Refugees of BiH (MLJPI)

In 2023, the CHU conducted an individual quality assessment of the FMC system in MLJPI, with the report prepared in December 2023. The CHU rated the system "Established" and issued 26 improvement recommendations. The **assessment found** that basic **FMC** elements had been established, including an FMC working group, a risk management coordinator, a business process map and a risk register. The existence of basic FMC documents, organisational units' involvement in risk management, established internal reporting and regular submission of annual FMC reports were assessed positively.
The most significant weaknesses concerned risk management, particularly defining objectives, analysing and monitoring risks, risk reporting and fraud risk assessment. Weaknesses were also found in managerial responsibilities, control activities, communication and system monitoring. Of the 26 recommendations, 10 concerned risk management. Recommendations were specifically linked to identified weaknesses and aimed at improving the FMC system's functionality.

Ministry of Finance and Treasury of BiH (MoFT)

In 2024, the CHU conducted an individual quality assessment of the FMC system in MoFT. The system was rated "Established", and 18 recommendations **were** issued, the **fewest among** the assessed institutions. Positive findings highlighted established business processes, risk registers, planning and reporting arrangements, and more developed capacities for managing and monitoring the FMC system.
Weaknesses mainly concerned improving risk management quality, documenting control activities, reporting quality, managerial responsibilities, and using FMC information in management. Although fewer recommendations were issued than in other institutions, they concerned the same key areas identified elsewhere. Recommendations were specific and aimed at improving the existing system.

Ministry of Communications and Transport of BiH (MKP)

In 2025, the CHU conducted an individual quality assessment of the FMC system in MKP. The system was rated "Established", and 22 **recommendations** were issued. **The assessment** confirmed basic organisational and methodological conditions for system operation, including established business processes, risk registers and reporting activities.
Weaknesses concerned risk management, managerial responsibilities, control activities, linking risks and controls, and using information in management. As in other assessed institutions, recommendations aimed to improve the system's functionality rather than its formal establishment. They were clearly linked to the weaknesses identified and included specific remedial measures.

Agency for Medicinal Products and Medical Devices of BiH (ALMS)

In 2025, the CHU conducted an individual quality assessment of the FMC system in ALMS. The system was rated "Established", and 25 improvement **recommendations were** issued. The **assessment** found that basic FMC elements had been established, including a business process map, risk registers, an FMC working group and organisational conditions for development. The application of certain quality management systems and organisational capacities for further FMC development were highlighted as positive practice.
The most significant weaknesses concerned risk management, fraud risk assessment, anti-corruption mechanisms, keeping internal acts up to date, control activities, transparency, and

IT support for business processes. Recommendations were specific, focused on identified weaknesses and aimed at improving key FMC components.

General conclusions from the four individual quality assessments

All four assessed institutions received the overall **rating** “Established”, confirming that basic FMC elements and organisational conditions for operation exist. At the same time, 91 recommendations were issued across the **four** assessments (MLJPI — 26, MoFT — 18, MKP — 22 and ALMS — 25), indicating significant scope for further development in every assessed institution.
Analysis of recommendations shows that the same or very similar weaknesses occur across all assessed institutions, primarily in:

- risk management;
- fraud risk assessment;
- defining managers' FMC responsibilities;
- control activities;
- FMC reporting;
- using FMC information in management and decision-making.

Individual quality assessments have proved useful for identifying FMC system weaknesses and defining improvement recommendations. At the same time, the recurrence of similar recommendations across all assessed institutions indicates common challenges and areas requiring further action to develop the FMC system in the institutions of BiH.

Annex 4: References

- Law on Financing the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, Nos. 61/04, 49/09, 42/12, 87/12, 32/13 and 38/22.
- Internal Control Standards in the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, No. 61/14.
- Financial Management and Control Manual for the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, No. 98/14.
- Risk Management Guidelines for the Institutions of Bosnia and Herzegovina — Version 2, Official Gazette of BiH, No. 84/20.
- Guidelines for Developing Managerial Accountability in the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, No. 26/20.
- Rulebook on Annual Reporting on the Financial Management and Control System in the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, Nos. 77/15 and 22/22.
- Rulebook on Quality Assessment of the Financial Management and Control System in the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, No. 22/22.
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- Regulations and methodological documents of the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH, available at: https://SHJ.mft.gov.ba.