

LAW ON INTERNAL AUDIT IN THE PUBLIC SECTOR OF REPUBLIKA SRPSKA

I BASIC PROVISIONS

Article 1

(1) This law shall regulate the establishment of an efficient internal audit system in the public sector of Republika Srpska.

(2) For the purposes of this law, the public sector shall include the following public sector organizations (hereinafter: organizations): users of budgetary funds of Republika Srpska, users of budgets of municipalities and towns, users of extra-budgetary funds, agencies and other institutions established in compliance with law, public companies and majority state-owned organizations.

Article 2

Individual terms used in this law shall have the following meaning:

- a) Internal audit means independent, objective verification and consulting activity aiming at adding value and improving the performance of an organization, helping the organization to achieve its goals by ensuring a systematic and disciplined approach to assessment and improvement of the efficiency of risk management, controls and management processes.
- b) An organization means every institution that is financed from public funds or public company that has a structure including at least 50% plus one share of state capital.
- c) A head of organization means a person at the highest level of management power at the organization, who has been elected or appointed.
- d) The head of internal audit means a person appointed by the head of the organization in compliance with laws and regulations on public administration of Republika Srpska, who manages an internal audit department or unit at the organization.
- e) The audit board means an independent, standing body, which does not include members of the management of the organization, providing advice on internal audit.
- f) First-level public funds users mean organizations financed from the budget of Republika Srpska.
- g) Second-level public funds users mean organizations financed through first-level public funds users.
- h) Verification services mean examination of evidence aiming at ensuring independent assessment of risk management, control or management process at the organization.
- i) The code of ethics means principles of profession and internal audit practice (integrity, independence, objectivity, confidentiality and competence) and rules of behavior that determine the rules of behavior of internal auditors in the performance of their functions, and the code of ethics shall be applied both to individuals and organization providing internal audit services.
- j) A conflict of interest means any relation which is not, or does not seem to be in the best interest of the organization, which has a negative impact on the ability of an individual to meet his/her duties and responsibilities in an objective manner.

k) The Internal Audit Manual means a document regulating procedures that must be applied to the work of the internal audit, which were defined with the aim of fulfilling the internal audit work plan.

l) The Central Harmonization Unit of Republika Srpska means an organizational unit within the Ministry of Finance of Republika Srpska that is in charge of application of internal audit regulations, coordination of work of the internal audit units at organizations and internal audit activities reporting.

II COMPETENCE OF INTERNAL AUDIT

Article 3

(1) Internal auditors shall conduct a systematic review and assessment of risk management, internal controls and organization's management, which includes policies, procedures and activities of the organization.

(2) Internal auditors shall assess the adequacy and efficiency of the financial management and control system in terms of the following:

- a) achieving the tasks and defined goals of the organization,
- b) economic, efficient and effective use of resources,
- c) adjustment to existing policies, procedures, laws and regulations,
- d) protecting the organization's assets from losses as a result of any type of irregularities,
- e) integrity and authenticity of information, accounts and data, including internal and external reporting.

Article 4

(1) Special unplanned consulting tasks related to internal audit may be initiated only by the head of an organization.

(2) An agreement on the goal, scope, time limit and budget for such special consulting service tasks shall be reached between the head of the organization and head of internal audit.

III BASIC PRINCIPLES AND STRUCTURE OF INTERNAL AUDIT

Article 5

(1) The internal audit function shall be performed in compliance with the following principles:

- a) independence and objectivity,
- b) competence and due professional attention,
- c) integrity and confidentiality.

(2) The internal audit function shall be performed in compliance with:

- a) the Internal Audit Methodology and Guidelines in the public sector of Republika Srpska issued by the Republika Srpska Central Harmonization Unit,
- b) International standards for a professional internal audit practice issued by the Institute of Internal Auditors (IIA) and adopted by the Republika Srpska Central Harmonization Unit,
- c) Internal Audit Code of Professional Ethics issued by the Institute of Internal Auditors (IIA) and adopted by the Republika Srpska Central Harmonization Unit.

Article 6

The internal audit function in the public sector of Republika Srpska shall be organized within:

- a) Internal audit units established at the organizations as referred to in Article 1 of this law, which meet one of the requirements as referred to in Article 7 of this law,
- b) Internal audit units established at the Ministry of Finance of Republika Srpska for organizations that do not meet the requirements specified in Article 7 of this law.

Article 7

- (1) Every organization shall establish an internal audit unit or department, if it meets the criteria defined by the Central Harmonization Unit, taking into account criteria such as the total annual budget, employee number, complexity of transactions and level of inherent risk.
- (2) The head of internal audit shall report directly to the head of organization.
- (3) The head of the internal audit unit and internal auditors shall not be responsible for establishing and functioning of an adequate and efficient financial management and control system, because this is the responsibility of the head of the organization.
- (4) The head of internal audit unit and internal auditors shall not perform any tasks within the organization that are not related to the internal audit function.

Article 8

- (1) A central internal audit unit shall be established at the Ministry of Finance of Republika Srpska (hereinafter: the Ministry).
- (2) The head of central internal audit unit shall establish the internal audit function at the Ministry and organizations that do not meet the criteria defined by the Central Harmonization Unit.

Article 9

- (1) The heads of organizations that have established internal audit units shall employ additional employees at the internal audit units in compliance with the criteria defined by the Central Harmonization Unit.
- (2) A minimum employee number at every unit as referred to in paragraph 1 of this article shall be two employees, which also includes the auditors who are being trained.

Article 10

Companies that are bound by the Law on Public Companies of Republika Srpska shall establish an internal audit unit in compliance with the Law on Public Companies of Republika Srpska.

Article 11

- (1) Internal audit units that were established in compliance with Article 7 of this law shall perform audits of all organizations, programs, activities and processes, including also units at

lower expenditure level at organizations that have not met the criteria for the establishment of an internal audit unit defined by the Central Harmonization Unit.

(2) Internal audit units of those organizations that are responsible for the management of projects and programs implemented by several organizations (departments) shall coordinate the work of internal audit units or those internal audit organizations that participate in the programs or projects.

(3) Internal audit units that are responsible for the audit of first-level public funds user shall not audit the activities of second-level public funds users that have established an independent internal audit unit or expenditure units at a lower level.

(4) The internal audit unit of the first-level public funds user shall supervise and coordinate the activities of internal audit units of the second-level public funds users.

IV INTERNAL AUDIT UNITS FINANCING AND CONFLICT OF INTEREST

Article 12

(1) Every organization that meets one of the criteria defined by the Central Harmonization Unit in compliance with Article 7 of this law shall hire an employee that shall be appointed head of its internal audit unit by the head of the organization.

(2) The internal audit unit shall have a budget allocation that may be identified for meeting of responsibilities and activities provided for by this law.

Article 13

(1) In addition to meeting general employment requirements defined by the Labor Law or Public Administration Service Law of Republika Srpska, internal auditors shall have university degrees and the relevant work experience.

(2) Additional requirements for hiring internal auditors shall be specified in the Internal Auditors Employment Procedures that shall be published by the Central Harmonization Unit.

(3) The heads of internal audit units shall be appointed, removed or transferred with the previous consent of the Central Harmonization Unit.

Article 14

The head of internal audit unit or internal auditor shall not participate in the audit if there are any of the following forms of conflict of interest:

a) if the internal auditor was employed as the head of the organization that is being audited over the last three years,

b) if the auditor, his/her spouse or relatives up to the second degree of kinship were employed as heads of the organization that is being audited over the last three years,

c) if the auditor, his/her spouse or relatives up to the second degree of kinship have shares or interests at the organization that is being audited,

d) if there are some other circumstances that may lead to a conflict of interest, if they are considered as such, and if they were explained in writing by the head of the internal audit unit.

V PROCEDURES AND ACTIVITIES OF INTERNAL AUDIT

Article 15

(1) Basic activities of the internal audit function shall be conducted through the following processes:

- a) strategic (three-year) and annual audit planning,
- b) testing, examining and assessment of data and information,
- c) reporting on results and making recommendations in order to improve the business performance, and
- d) providing an overview of monitoring and implementing internal audit's recommendations by the management.

(2) The mentioned processes shall be defined in the Public Sector Internal Audit Guidelines that shall be created by the Central Harmonization Unit.

Article 16

The head of internal audit unit shall:

- a) prepare operating guidelines and the Internal Audit Manual in compliance with the relevant regulations,
- b) prepare a three-year strategic plan,
- c) prepare an annual audit plan based on risk assessment and adopted strategic plan and ensure an adequate implementation and supervision of its implementation upon approval by the head of the organization,
- d) organize and coordinate the activities of internal audit and supervise the implementation of planned activities,
- e) inform the head of the organization about the existence of conflict of interest in relation to his/her task,
- f) inform the head of the organization if there is suspicion about irregularities and/or fraud that may result in criminal activities, violation of regulations or disciplinary procedures, and inform prosecution authorities in case of irregularities or frauds,
- g) send the internal audit report to the head of the organization, and if the audited organization is a second-level public funds user, to its head, too,
- h) prepare an annual report on the internal audit activities,
- i) ensure high level quality of internal audit activities and application of rules defined by the Central Harmonization Unit,
- j) record all audit activities and keep documents related to internal audit,
- k) ensure training of internal auditors, prepare and submit an annual training plan to the head of the organization for approval and ensure its implementation,
- l) perform annual assessment of possibilities and resources of the internal audit unit and make recommendations to the head of the organization with the aim of adjusting the annual audit plan,
- m) cooperate with the head of internal audit of the public sector of Republika Srpska in relation to exchange or reports, documents and opinions,
- n) initiate hiring of external experts,
- o) ensure efficient use of resources provided for the performance of the internal audit function,

p) draw the attention of the Central Harmonization Unit to all differences in opinions of internal auditors and the head of the organization.

Article 17

The internal auditor shall be authorized to:

- a) enter the premises of the organization in which the audit is performed, taking into consideration the safety rules and rules of good behavior,
- b) access the relevant documents related to the audit at the organization that is being audited, including the presence, professional or business secrets and other electronic documents and data ensuring protection of secrecy defined by laws, secondary legislation and internal documents,
- c) ask for photocopies, statements or certificates of the mentioned documents, and in some cases also to take original documents, leaving a copy and a receipt,
- d) ask for oral or written information from employees or head of the organization that is being audited,
- e) ask for information from other institutions in relation to activities and management of organizations that are being audited.

Article 18

The internal auditor shall be obliged to:

- a) conduct the audit program during auditing activities,
- b) inform the head of the organization that is being audited about the beginning of audit and present him/her with the letter of appointment,
- c) review the documents and important requirements for giving an objective opinion,
- d) objectively and truthfully assess findings in writing and support them with evidence,
- e) inform the head of internal audit unit about any suspicion of irregularities and/or frauds detected during the performance of the audit,
- f) draft an audit report, review it together with the management and the persons responsible at the organization that is being audited,
- g) include all differences of opinion of the management of the organization that is being audited in the final audit report,
- h) send the draft audit report and final audit report to the head of the internal audit unit,
- i) immediately inform the head of internal audit about any conflict of interest related to the audit,
- j) return all original documents after the completion of the audit,
- k) keep any state, professional or business secret that he/she might have found out during the internal audit, and
- l) keep the whole internal audit working documents.

Article 19

(1) The organization that was audited shall prepare an action plan based on audit findings and recommendations and set a final deadline for the implementation of the necessary measures within their competence and inform the head of the organization and the head of the internal audit about the application of the action plan.

(2) The head of internal audit shall monitor the application of the recommendations provided in the internal audit report subsequently, and no later than six months, in order to establish whether the organization applied the recommendations that had been made.

(3) The head of internal audit shall inform the head of the organization and the audit board, if it was established, about the results that were monitored as referred to in Paragraph (1) of this article.

(4) The report on subsequent monitoring, as referred to in Paragraph (2) of this article, shall be submitted at the request of any legislative, executive or judiciary body and relevant external audit institutions.

Article 20

(1) At the end of every fiscal year, the head of internal audit shall create the annual report no later than 60 days and shall include in the report separately the audit reports that were made and other activities that were completed or still ongoing on the last day of the fiscal year.

(2) The annual report shall provide an overview of the basic conclusions related to all internal audits conducted during the year in order to ensure a general assessment of the financial management and control system and analyses of all cases involving violation of laws and regulations, and cases forwarded to prosecution authorities during the year.

(3) The annual report shall include information on performed activities of internal audit as compared to planned activities.

(4) A copy of the report shall be submitted to the head the organization, audit board, if it was established, and to the Central Harmonization Unit.

(5) The annual report shall be submitted to the Chief Auditor of the Public Sector of Republika Srpska and to another external auditor, and upon their request, it shall be submitted to the relevant legislative, executive or judiciary body.

Article 21

The head of the internal audit unit of the second-level public funds user shall report on internal audit, including the annual audit report, to the head of the internal audit unit for the first-level public funds user no later than 15 days following the issuance of the report.

Article 22

(1) Every internal audit organization shall be subject to an external quality control verification that shall be performed at least once every five years in order to establish the compliance of issued reports with the valid standards of professional practice of internal audit.

(2) The control as referred in Paragraph (1) of this article shall be performed by qualified persons that are independent from the organization and that are not involved in a real or possible conflict of interest.

(3) External quality control and selection of persons or an independent organization for external quality control shall be defined by the Central Harmonization Unit.

VI AUDIT BOARD

Article 23

(1) The head of the organization that is obliged to establish an internal audit unit as referred to in Article 7 of this law, may establish an audit board in compliance with the following requirements:

a) the audit board shall include persons who are not employees of the organization and possess the relevant qualifications and competence in financial management and control, internal and external audit.

b) the Minister of Finance and head of the Central Harmonization Unit shall give their consent.

(2) Paragraph (1) of this article shall be applied to all organizations, except public companies, majority state owned, where the audit board shall be established in compliance with the Law on Public Companies in Republika Srpska.

Article 24

The competence of the audit board shall include:

a) adoption of the rules of procedure of the audit board;

b) support to internal audit activities through advice on:

1) the structure of the internal audit unit,

2) appointment and removal of the head of internal audit unit,

3) strategic and annual internal audit unit plan,

4) annual plan of the internal audit unit,

5) report o subsequent audit and

6) report on external quality control of internal audit unit's work.

VII CENTRAL HARMONIZATION UNIT

Article 25

The Central Harmonization Unit shall be established at the Ministry of Finance of Republika Srpska, and shall be responsible for the development, management and coordination of internal audit at the organization in relation to the following:

a) initiatives for amendments to the Law on Internal Audit in the Public Sector of Republika Srpska,

b) preparations and application of the training program and certification of internal auditors in Republika Srpska,

c) adoption and application of internal audit standards and internal auditors' professional ethics code,

d) adoption and application of internal audit work methodology,

e) adoption and application of the internal financial control development strategy in the public sector of Republika Srpska,

f) provision of opinion in relation to the internal audit rules of procedure at organizations that establish internal audit units,

g) coordination of work of internal audit units at organizations,

h) approval of heads of internal audit units and internal audit board members,

- i) cooperation with the Supreme Audit Institution of Public Sector of Republika Srpska in order to achieve an efficient and effective internal and external audit,
- j) supervision of application of all internal audit regulations,
- k) resolving differences in opinions of the head of internal audit and head of the organization.

Article 26

In addition to the competence as referred to Article 25th of this law, the Central Harmonization Unit of Republika Srpska shall be competent for:

- 1) the preparation of an annual consolidated internal audit report that shall be approved by the Minister of Finance and submitted to the Government of Republika Srpska.
- 2) the report as referred to in Item 1) of this article shall include an analysis of the applied work methodology of the Central Harmonization Unit, including recommendations for its improvement, information on the status of application of recommendations from internal audit reports, which were submitted to the Central Harmonization Unit.

Article 27

The structure, procedures and financing of the Central Harmonization Unit of Republika Srpska shall be regulated in compliance with the rules of procedure of the Central Harmonization Unit adopted by the Minister of Finance.

VIII TRANSITIONAL AND FINAL PROVISIONS

Article 28

- (1) Secondary laws for the implementation of this law shall be adopted by the Minister of Finance of Republika Srpska based on drafts of the Central Harmonization Unit no later than four months of the day of appointment of the head of the Central Harmonization Unit.
- (2) Until the adoption of the regulation as referred to in paragraph (1) of this article, organizations that meet the following criteria shall appoint at least one internal auditor no later than six months following the entry into force of this law:
 - a) an organization with an operating budget exceeding KM 10.000.000 per year, or
 - b) an organization with more than 200 employees, or
 - c) an organization conducting transactions exceeding KM 15.000.000 per year.

Article 29

The Central Harmonization Unit shall prepare operating procedures and internal audit methodology no later than a year following the appointment of the head of the Central Harmonization Unit.

Article 30

Existing internal audit rules and regulations shall be applied until the adoption of secondary legislation as referred to in Article 28 of this law, unless they are contrary to this law.

Article 31

Organizations shall adjust their internal regulations to the provisions of this law no later than six months of its entry into force.

Article 32

This law shall enter into force on the eight day following its publication in the "Official Gazette of Republika Srpska".

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PRESIDENT OF
THE NATIONAL ASSEMBLY

Igor Radojičić, M.A.