

Re: UR-391/02 Sarajevo, December 6, 2002

SUBJECT: EXCERPTS FROM THE REPORT ON THE ACTIVITIES OF THE OFFICE FOR THE FBIH BUDGET AUDITING IN 2002

1. 2002 WORK PLAN IMPLEMENTATION

Regarding the adopted Work Plan for the year 2002, the Office for the FBIH Budget Auditing conducted the auditing of the Federation institutions and bodies. The auditing was done from February to June 2002.

In accordance with the Law on Auditing FBIH Budget, the Office submitted the Public Report to the FBIH Parliament, as an overall report of all the 2001 financial reports auditing conducted in the Federation ministries and offices.

The Public Report included the reports of 35 Federation ministries and offices or 97,74% of the budget met at the Federation level.

In the period from June to September 2002, the financial reports auditing was conducted in the seven following cantons:

1. **Hercegovacko-Neretvanski Canton - 5 reports (20 entities)**
2. **Sarajevo Canton - 17 reports (23 entities)**
3. **Tuzla Canton - 2 reports (15 entities)**
4. **Zenicko-Dobojski Canton – 2 reports (12 entities)**
5. **Bosansko-Podrinjski Canton 2 reports (12 entities)**
6. **Posavski Canton – 2 reports (10 entities)**
7. **Herceg-Bosanski Canton – 17 reports (17 entities)**

Auditing in the other three Cantons was carried out in 2001.

The reason for such a great number of reports and entities is the fact that not all the Cantons have started with the treasury activities.

This year the Office for the FBIH Budget Auditing conducted auditing of two outside the budget funds: Common Fund PIO Sarajevo, Institute MIO Mostar. These two Institutes (Funds) have merged into one Institute in 2002.

Auditing was also conducted in four public companies: Public Company Railways of FBIH, Sarajevo; Public Company Railways of FBIH, Mostar; Public Company Watered Territory by the Sava River Basin, Sarajevo; Public Company Watered Territory by the Adriatic Sea Basin, Mostar.

In accordance with the 2002 Work Plan, the Office for Auditing the FBIH Budget carried out auditing in the following municipalities: Donji Vakuf; Visoko; Vogosca; Zivinice; Srebrenik; City of Mostar, Mostar- Southwest; Mostar-West; Mostar-South; Mostar North; Mostar Old City and Mostar- Southeast.

Auditing is currently taking place in the municipalities of Ljubuski, Tomislavgrad and Bugojno. In 2002, 166 entities were subject to revision.

Apart from auditing activities, the Office on a regular basis followed the education on auditing issues of the three Auditing Offices personnel in BiH, carried out by the Swedish National Auditing Office. It is a five - year program consisting of education, workshops, equipment and verification of trained personnel. We are very pleased with the content, dynamics, quality and overall atmosphere of the implementation of the program by the Swedish Auditing Office.

2. IRREGULARITIES DISCOVERED DURING AUDITING AND IMPROVEMENTS IN REGARD TO PREVIOUS AUDITING

The following are the deficiencies found out at the majority of entities audited:

1. Actual budget surpass in regard to the planned budget with the majority of entities audited
2. Arbitrary spending of the self made money
3. Direct transfer of the FBiH Budget money to lower units without knowledge or intervention by the relevant Ministry
4. No feed- back on implementation of certain financial programs or budget money spending
5. Greater number of employees than stipulated by the rules
6. No adequate internal control system
7. Non compliance with the Act on Procurement Procedures for Purchase of Goods, Services and Construction Works
8. Incomplete and outdated records of public revenues and expenditures
9. Incorrect accounting records on permanent assets
10. No timely reporting to the Federation Ministry for Finance with comprehensive and consolidated reports

Findings of the office in regard to the administration work of the ministries, funds and other entities audited, may be divided into two groups:

The first group consists of the ones who accepted and understood the recommendations of the auditors and therefore made improvement in their work.

The second group consists of the ones who have not met the recommendations.

Further measures ensuring better supervision need to be taken against such entities. It is important to note that the frequent irregularities in financial reports are far more the case at the lower government levels (municipalities) rather than at the Cantons and Federation level.

It can be said that, overall, the role of the Office is appreciated and there is a willingness to make positive steps towards ensuring efficient and transparent work and correcting the irregularities noted.

It is necessary to make further efforts in establishing internal control and auditing systems at all levels. There is a need to educate personnel in order to have qualified professionals fully capable of fulfilling the tasks ahead, which in turn requires full budget planning. All personnel should work in accordance with the internationally recognized standards on internal control and auditing.

3. FUTURE VISION

By 2005 the Office needs to be fully capable of conducting all auditing activities. This means that the Office should be equipped and trained to carry out financial auditing, revision of legality and revision of effectiveness. In order to achieve the future goals the following requirements are necessary to be met: continued work on the project on institutionalized development of revision capacities with the Swedish National Auditing Office and ensuring sufficient financial support within the FBIH Budget for further hiring and education of personnel. There were no problems so far in planing and approving the budget for our needs and we hope this positive trend will continue.

In 2003 we plan to expand our activities in the financial auditing filed, and start with training and education on revision of harmonization and effectiveness.

We will make further efforts towards improving the cooperation with the Swedish RRV with an aim to obtain information equipment and educate the employees to meet the final goal of making the coming year a year of IT revision.

Our activities will include the following:

- more effective and better cooperation with the FBIH Parliament and Board for Financial and Budget Issues
- media plan and cooperation with print and electronic media
- joining the international associations INTOSAI/EUROSAI that deal with revision issues in the public sector
- cooperation/liaison with local and international agencies interested in our work
- revision of a greater number of entities than last year

Sarajevo
December, 2002

Public Relations Department