

Bank (1993), the International Monetary Fund (1992) and other major international organisations. Due to failure to appoint its parliamentary delegation after the 2018 election, Bosnia and Herzegovina could not participate to the works of the Council of Europe Parliamentary Assembly (PACE); a parliamentary delegation from Bosnia and Herzegovina was appointed to join PACE only in January 2020. Bosnia and Herzegovina acts as an observer in the Non-Aligned Movement (1994) and the Organisation of Islamic Cooperation (1994). The country is in the process of negotiating its membership in the World Trade Organisation. In addition, it participates in NATO's Partnership for Peace Program since 2006 and, in that context, submitted a 'reform programme' to NATO in December 2019. Bosnia and Herzegovina also participates in the observation of elections in other countries as part of the OSCE, including the observation delegations of the Council of Europe.

On *security measures*, an agreement on security procedures for the exchange of classified information is in place since October 2004 between the EU and Bosnia and Herzegovina. The agreement was ratified in February 2006 and entered into force on 1 May 2006. The agreement was amended in October 2018. The agreement applies to classified information and materials in any form, either delivered or exchanged between the EU and Bosnia and Herzegovina. Regular exchanges of classified information, up to the level of EU Restricted, are taking place.

Regarding the **common security and defence policy** (CSDP), the agreement between Bosnia and Herzegovina and the EU on the establishment of the framework for the country's participation in both civilian and military crisis management operations entered in force in 2016. Three members of Bosnia and Herzegovina armed forces are deployed in the EU Training Mission (EUTM) in the Central African Republic. The financing threshold for the 2019 defence budget, as prescribed in the Budget Framework Document 2019-21, represents less than 1% of GDP. Currently, 83% of the budget is used for salaries, and less than 1% goes to investments. Equipment, weapon systems and infrastructure are not being maintained or replaced due to lack of funding and a centralised and dysfunctional procurement system. This also affects the Demining Battalion that is a key player in humanitarian demining and an essential partner for the successful implementation of the country's Mine Action Strategy 2018-2025.

### **5.32. Chapter 32: Financial control**

*The EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.*

Bosnia and Herzegovina is at an **early stage** in this area. **Limited progress** was made in fulfilling last year recommendations, notably in defining a strategic framework on managerial accountability in public internal financial control. Detailed strategic documents need be prepared for each level of government once the framework is adopted. All central harmonization units need to strengthen their administrative capacities and monitor the effectiveness of internal control functions in the public sector. The financial and operational independence of supreme audit institutions must be ensured in practice, particularly in the Federation entity. The supreme audit institutions should also improve the quality of their audit reports, and step up their communication efforts to reinforce the public awareness of their work.

In the coming year, Bosnia and Herzegovina should:

- adopt a comprehensive common framework on public internal financial control (PIFC) and managerial accountability;
- improve the quality of PIFC monitoring framework and implementation of the PIFC report recommendations across budget entities;
- ensure the functional, financial and operational independence of supreme audit institutions (SAIs) at all levels of government and the impact of SAIs work through Communication Strategies 2020-2025.

### Public internal financial control

A new comprehensive medium-term **strategic framework** for PIFC for some levels of government still needs to be developed by means of the adoption of 2020-2025 PIFC strategies. The PIFC strategy and its action plan for the State-level institutions have been adopted by the Council of Ministers beginning of June 2020. A coordinated monitoring and reporting framework for all these strategies needs to be put in place. The enabling conditions for implementing managerial accountability are not yet in place, as the countrywide strategic framework on public administration is still lacking.

**Managerial accountability** is not yet embedded in the administrative culture of the public sector. Across levels of government, basic accountability mechanisms between ministries and subordinated agencies are not in place, and effective management of subordinate bodies is not ensured. While there are rules of procedure at each government level ensuring legal and financial scrutiny of policies, coordination of policy content with government priorities is lacking throughout the public administration. Currently, public entities have no strategic plans with clear objective setting and performance indicators against which managers and staff members performance is assessed. However, the highly centralised systems of decision-making hinder efficient implementation of the principle of managerial accountability, with no clear role for managers at the lower level (*see Public Administration Reform*).

The legal framework for the functioning of **internal control** is in place at state and entity level, except in Brčko District. Risk management is performed only in 60% of the institutions and low level of coordination between different levels of government hampers further this area. The current laws on internal control lack further implementation in the internal regulations, business processes and management information systems at all levels of government and in the public enterprises.

**Internal audit practice** is regulated at state and entity levels, except in Brčko District, and is in line with international audit standards. Some progress was noticed in regulating better the internal audit function at state level. The internal audit function remains to be extended to all public entities. Internal audit units remain weakly staffed and many of them operate with only 50% of vacancies filled. The majority of the internal auditors are certified, but their value added in contributing to effective practices remains low across levels of government. Various decisions regulating improved certification and training programmes on internal audit were adopted at the state level and in the *Republika Srpska* entity. However, more needs to be done to increase professional development of audit staff, especially on risk assessment, using IT and work with analytical tools.

**Central harmonization units** (CHUs) have been established at state and entity levels. The three CHUs, except Brčko District, prepare yearly-consolidated reports to their respective governments on PIFC implementation. PIFC reports do not assess risk mitigation. Their

quality and impact on internal control remains weak, as and the PIFC reports' recommendations remain not well implemented across public entities at all levels. CHU capacity and its institutional mandate remain not sufficient to effectively provide methodological guidance, promote and monitor PIFC reforms across levels of government. The CHUs should start to implement quality reviews on internal control and internal audit. Their capacities should be strengthened in order to fulfil better their tasks.

#### External audit

With regard to **constitutional and legal framework**, while there is no constitutional anchorage of any of the supreme audit institutions (SAI), the functional, operational and financial independence of the SAIs at all respective levels of government is regulated in the specific SAI laws broadly in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). Instances of executive interference in the budget setting of SAIs have been observed in practice and particularly so in the Federation entity.

**The institutional capacity** of SAIs needs to be strengthened across levels of government. The Federation entity faces a particular challenge in ensuring external audit coverage of its cantonal level. All SAIs, except the SAI of the Brčko District, implement their respective strategic development plans. SAIs should continue to work closely with the prosecution authorities to see how to best handle instances of possible fraud and corruption, that the SAI uncovers during an audit.

With regard to the **quality of audit work**, all the SAIs have a broad mandate, which covers financial, compliance and performance audit. The SAIs should consider improvement of the quality of their audit to bring up the causes of the identified weaknesses and increase the number of performance audits.

The **impact of the audit work** of all SAIs is limited. The rate of implementation of audit recommendations still remains low across levels of government (tbc with data). While parliaments have procedures in place for examining audit reports, the level of parliamentary scrutiny to these reports varies across levels of government. The audit results need to be presented and communicated in a more efficient manner in the audit reports and in the media. Additionally, the SAIs should develop communication strategies in order to improve the impact of their work.

#### Protection of the EU's financial interests

The legislation at all levels of government ensure some degree of EU **acquis alignment** as it covers many elements of the Directive on the fight against fraud to the EU's financial interests by means of criminal law. These include Directive 2017/1371 and its predecessor, the Convention on the protection of the EU's financial interests and its protocols, such as on the treatment of suspected cases of fraud, money laundering, definitions of active and passive corruption, misappropriation, the liability of legal persons and related penalties. The scope and definitions of the offences are not always in line with the Directive: for example in the case of corruption and misappropriation offence. Further alignment of the legislation is needed, including on the freezing and confiscation of criminal assets. Effective implementation and enforcement of the legislation also needs to be ensured.

An **anti-fraud coordination service** (AFCOS) to facilitate effective cooperation and exchange of information with the Commission is not yet in place. Similarly, there is no corresponding AFCOS network of authorities involved in the protection of the EU's financial interest. A countrywide anti-fraud strategy for the protection of the EU's financial interest