

LFS survey for the first quarter of 2021. Calculation of the labour cost index and introduction of the structure of earnings survey are not implemented. Job vacancy statistics are collected regularly. Social protection statistics (ESSPROS – European System of Integrated Social Protection Statistics) are submitted to Eurostat, including revised ESSPROS data for the period 2013-2018. Intensified cooperation with the institutions responsible for monitoring migration flows is needed in order to obtain complete data on migration. In the area of education, all levels of the government are covered and statistics are published on an annual basis. Culture statistics include 15 cultural domains, although their coverage is not yet adjusted to Eurostat requirements. There have been some improvements regarding crime statistics, which is collected on a monthly basis and submitted annually for the UNODC questionnaire. The negative effects of the COVID-19 pandemic were reflected in a reduction in the budget by governments to carry out some surveys.

The lack of a recent agricultural census – the last one took place in 1960 – is a major limitation for **agricultural statistics**. Therefore, special attention needs to be paid to adopting a methodology and defining the responsibilities and budgetary aspects of a future agricultural census. A very limited number of statistical indicators are produced for agriculture, including some experimental estimates. An annual farm survey (AFS) has been conducted for 2020. Supply balance sheets are not available. Statistics on crops, vineyards, orchards, animal production and milk and dairy are not in line with the EU *acquis*; the same is true for slaughter statistics.

As for **energy statistics**, further work is needed to improve the quality of data in line with EU requirements, in particular annual data on renewable energy sources and basic monthly data on oil. For the first time, the SHARES (harmonised calculation of the share of energy from renewable sources) questionnaire for the reference year 2018 was submitted to Eurostat.

Regarding **environmental statistics**, the Agency for Statistics continued to publish data from the annual statistical surveys on climate change and greenhouse gas emissions from agriculture and waste disposal. The Agency for Statistics is not reporting to Eurostat on monetary environmental accounts.

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. **Some progress** was made in fulfilling last year recommendations, notably in developing and adopting strategies on public internal financial control in all entities. All central harmonization units need to continue strengthening their capacities and monitor the effectiveness of internal control functions in the public sector, with particular attention to the risk management and internal audit functions. The financial and operational independence of supreme audit institutions must be ensured in practice. Bosnia and Herzegovina should 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:

- continue with the implementation of the recently adopted PIFC strategies;
- improve the quality of the monitoring framework on public internal financial control and the implementation of the PIFC report recommendations across budget entities;

→ ensure the functional, financial and operational independence of supreme audit institutions at all levels of government and improve the impact of SAIs work through communication strategies 2021-2025.

Public internal financial control

A comprehensive **strategic framework** for public internal financial control (PIFC) for all levels of government is in place together with individual 2020-2025 PIFC strategies. The PIFC strategies and their action plans have been adopted in 2020. The strategies have identical monitoring and reporting frameworks. The PIFC reform is coordinated by the Coordination Board of the Central Harmonisation Units (CHU), which needs to be strengthened. The enabling conditions for implementing managerial accountability are not yet in place, as there is no countrywide strategic framework on public administration reform. Annual PIFC reports are adopted by each government, however there is no systematic follow up on the reports' recommendations.

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. Public entities have no strategic plans with clear objectives and performance indicators against which managers and staff members performance is assessed. 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 all levels of government. The legal provisions on internal control are not consistently integrated in the general Public Finance Management regulations, business processes and management information systems at all levels of government and in the public enterprises. A countrywide management information system for risk management, internal control and monitoring and reporting of the financial management and control activities is in advanced stage of development (PIFC application). The reporting will also include key performance indicators of public enterprises. The network will cover all levels and all public sector organisations in Bosnia and Herzegovina allowing for consolidation and monitoring of information on major risks, internal control actions and their impact.

The majority of the first-level budget spending units and public enterprises submit to the CHUs an internal control self-assessment report, which is in its essence a statement of assurance on internal control systems. State level institutions, 67 out of 80, submitted their self-assessment reports for 2020 online. Risk management is in the initial phase of implementation. Some progress was made in December 2020 with the adoption of the risk management guidelines for State-level institutions to support the uniform organization of risk management processes. Public sector managers need to establish risk registers and define adequate risk mitigation measures, integrated in the management decision-making cycle. Budget inspection is in place at each level, dealing with complaints and checking compliance of actions. There is no overlap with the internal audit function.

Internal audit practice is regulated at state and entity levels and Brčko District and is in line with international audit standards. The internal audit function remains inefficient due to the fragmentation of the public sector. Some efforts are under way to better regulate the internal audit function at the Federation entity and the Brčko District and provide tailored trainings

for internal auditors at the state level and *Republika Srpska* entity. The internal audit manuals at all levels are being updated in parallel to the development of internal audit management software. Internal audit units remain weakly staffed and many of them operate with only half of positions filled. Nearly all appointed internal auditors in the public sector are certified, comprising a total of 721 certified internal auditors since 2016 when the certifications started. While most of the internal audit job positions available are occupied, such as 322 out of 451 or 71%, the persisting problem lies in the fragmentation of the internal audit system and weak capacities of those units. Hence, in the reporting period their added value in contributing to effective practices in internal auditing remains weak across all levels of government. Internal audit certification procedures are in place and implemented at all levels of government except in the Brčko District. 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, entity levels and Brčko District. The three CHUs, except in Brčko District, prepare yearly consolidated reports to their respective governments on PIFC implementation. The reports are adopted by each government with decisions requiring further action for implementing the PIFC strategies in each individual public sector organisation, focusing mostly on monitoring the trends on number of financial management and control self-assessment reports, establishment of internal audit units, their staffing and execution of annual audit plans. The quality of the PIFC reports needs to be strengthened, by including risk management, among others. Their impact on internal control remains weak, as recommendations remain not well implemented across public entities at all levels. The CHUs do not have sufficient staff and administrative capacity to provide methodological guidance, promote and monitor PIFC reforms in a conventional way. The coordination Board of Central Harmonisation Units continued its work according to the workplan, but its effectiveness in driving reforms need to improve. Since 2020 a PIFC application with business analytics is being developed with the aim of providing quality information for the PIFC reports and supporting the monitoring capacity of the CHUs. The CHUs should start to implement quality reviews on internal control and internal audit.

External audit

With regard to the **constitutional and legal framework**, 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). However, the requirements of the SAI laws with respect to financial independence need to be better respected by the executive and effectively implemented. All audit offices should be able to use and manage their approved budgets as they see fit, without any interference, or requirement for approval, by the respective Ministries of Finances, particularly so at 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 levels. All SAIs have developed a new cycle of strategic development plans for 2021-2025, which are adopted across all levels of government. 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. The Coordination Board of State Audit Institutions needs to be further strengthened in effectively following up with audit offices on how the legal framework and related procedures on external audit can be implemented across levels and as well establish a better monitoring system on progress undertaken by the various audit offices.

ith regard to the **quality of audit work**, all the SAIs have a broad mandate, which covers financial, compliance and performance audit. The trend on number of performance audits has remained stable across levels. The SAIs have INTOSAI compliant methodologies and manuals. The SAIs should consider improving the quality of their audits in providing compliance assurance, bringing up the causes of the identified weaknesses and increase the number of performance audits. Each SAI report includes assessment of the internal control of the audited organisation. However, the assessments are of general nature. The SAIs need to apply comprehensive internal control assessments tailored to the audited areas, types of transactions and type of organisations.

The **impact of the audit work** of all SAIs is limited. The audit recommendations are predominantly focused on formal compliance targeting outputs, do not address the causes of the weaknesses or the likelihood of implementation. This leads to high number of recommendations and low rate of implementation across levels of government, which remains in average across levels between 25% to 60% fully implemented or in the process of being implemented. Additionally, SAIs should consider terminating the practice of including recommendations in audit reports that are out with the mandate of the particular auditee, as such is not in line with international standards. While parliaments have procedures in place for examining audit reports, the level of parliamentary scrutiny to these reports varies across levels of government. SAIs need to step up efforts in establishing closer partnerships with respective parliaments in making the recommendations of audit institutions buding for the government.

The quality of the audit findings need to be improved. The results should be presented in terms of value added by the SAIs 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. In the reporting period, no changes in this area have been made. 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 needs to be adopted.

While there is no solid track-record on **cooperation with the Commission** during investigations, the State Investigation and Protection Agency and the Ministry of Finance and Treasury ensure cooperation on an ad-hoc basis. Although limited, cooperation on investigations has been positive. Bosnia and Herzegovina does not report on irregularities to the Commission through the Irregularity Management System.

Protection of the euro against counterfeiting

Bosnia and Herzegovina has not ratified the 1929 Geneva Convention for the suppression of counterfeiting currency. The level of EU **acquis alignment** for technical aspects needs to be determined. The Central Bank has a regulation in place that obliges commercial banks and

other entities to withdraw all suspect banknotes and coins from circulation. However, no sanctions are imposed for failure to fulfil this obligation. There is no legal obligation for credit institutions and other payment service providers to ensure that euro banknotes and coins are checked for authenticity and that counterfeits are detected.

3. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

Good neighbourly relations and regional cooperation form an essential part of Bosnia and Herzegovina's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past.

Bosnia and Herzegovina maintained its engagement in a number of regional cooperation initiatives, such as the Central European Free Trade Agreement (CEFTA), Energy Community, Transport Community, the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council, of which it hosts the seat.⁸ In 2020, the country presided over the US-Adriatic Charter and the CEFTA Agreement.

The Covid-19 pandemic has accelerated the ambition to enhance regional integration, by displaying the important links between markets in the region as well as between the EU and the six Western Balkans economies. Given the European perspective of the Western Balkans, the EU has continued to treat the region as privileged partners by associating them with the Union's mechanisms and instruments, including an exemption from temporary EU export restrictions of medical equipment.

At the Sofia Summit on 10 November 2020, the six Western Balkans leaders adopted the Declaration on the Common Regional Market and the Declaration on the Green Agenda for the Western Balkans. This followed upon previous commitments taken at the EU-Western Balkans Zagreb summit in May 2020 and the recognition of the role of deepened regional economic integration to support the economic recovery of the Western Balkans.

The Common Regional Market is structured around the four freedoms (free movement of goods, services, capital and people) while also covering aspects of digital, investment, innovation and industrial policy. This makes it the most ambitious regional integration effort to date in the Western Balkans. The Common Regional Market builds on EU rules and standards and represents a stepping-stone to integrate the region more closely with the EU Single Market already before accession.

The Common Regional Market will be critical in increasing the attractiveness and competitiveness of the region. It will help Bosnia and Herzegovina to speed up the recovery from the aftermath of the pandemic, notably to attract investors looking for diversification of supply and shorter value chains and to maximise the benefits of the infrastructure investments under the Economic and Investment Plan. It is therefore important that all parties play a constructive role in building the Common Regional Market and deliver on their joint commitments.

The Green Agenda for the Western Balkans aims at reflecting, the European Green Deal in a proportionate and adapted manner in the Western Balkans. The objective is to turn environmental and climate challenges, similar in the region, into opportunities. Given that

⁸ Bosnia and Herzegovina also actively participates in initiatives such as the Brdo-Brijuni Process, the Central European Initiative, the Adriatic-Ionian Initiative, the EU Strategies for the Danube Region and for the Adriatic-Ionian Region, the Migration, Asylum, Refugees Regional Initiative (MARRI), the Regional School of Public Administration (ReSPA), the Regional Youth Cooperation Office in the Western Balkans (RYCO), the South East European Cooperation Process (SEECP) and the Western Balkans Fund.