

Pursuant to Article 101 of the Public Finance Act (Official Gazette of the RS Nos 79/99, 124/00, 79/01, 30/02), the Minister of Finance hereby issues the following:

**Regulations  
on Guidelines for the Harmonised Functioning of the Public Internal  
Financial Control**

**I. GENERAL PROVISIONS**

Article 1  
(Scope)

These Regulations shall lay down the guidelines for the balanced functioning of the Public Internal Financial Control in direct and indirect spending centres of the state budget of the Republic of Slovenia and of local budgets (hereinafter referred to as budget spending centres); for the establishment, functioning and development of the internal control; the role of the Budget Supervisory Service at the Ministry of Finance; the basic principles, procedures and regulation of internal control and internal audit; and the relationship between the performers of internal control for budget spending centres and the Budget Supervisory Service at the Ministry of Finance.

**II. ESTABLISHMENT, FUNCTIONING AND DEVELOPMENT OF PUBLIC  
INTERNAL FINANCIAL CONTROL**

Article 2  
(Responsibility of Chief Officers and/or Management of Budget Spending  
Centres)

The Chief Officers and/or management of budget spending centres shall be responsible for the establishment, operation, supervision and modernisation of an appropriate and efficient system of financial management and internal controls, as well as an appropriate internal audit function in compliance with these Regulations and other applicable rules, methods and standards relating to financial management and internal control issued by the Budget Supervisory Service at the Ministry of Finance. Line officers at all levels and in all organisational units must understand, and be aware of, the principles of

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<sup>1</sup> Rules on Guidelines for Harmonised Function of PIFC System

sound financial management and efficient internal control.

Budget spending centres shall adopt detailed regulations governing their performance from the following points of view:

- management activities relating particularly to general policies and planning, and to organisation and auditing;
- programme activities relating to the performance of tasks assigned to a budget spending centre;
- financial activities relating in particular to financial management and controls (budget statements, financing plans, cash flows, resources, obligations, and accounting data).

Budget spending centres shall be responsible for the establishment of the internal control system and maintenance of human and material resources and conditions that are required for the implementation of economic, efficient and effective business operations, and internal controls. For this purpose, they shall ensure continuous maintenance of effective personnel management and working processes, and take due care that:

- working processes are prescribed in full detail and based upon general rules of operations conducted by the budget spending centre;
- provisions on preventing conflicts of interest are in force;
- concise and up-to-date descriptions of operations are available to budget spending centre personnel;
- assessments of all employees are performed regularly;
- all officers, and state internal auditors in particular, are provided with regular professional training;
- the measures required when policies, procedures and ethic principles are not being followed are implemented in practice;
- a sufficient number of personnel is foreseen and assigned for managing, performing and controlling the operations, and that timely replacements are provided;
- internal files, working processes and organisation charts are continually kept up-to-date;
- competencies and responsibilities of employees are determined in cases when assignments are delegated to other institutions, and that procedures adopted under these Regulations and those set out in the Common Guidelines for Financial Management and Internal Control are applied by those institutions;
- the accounting system includes appropriate accounting controls, such as: comparisons of various records featuring the same information; verification of the sequence of documents; and comparisons of volumes of various documents.

Budget spending centres shall develop and adopt a system for evaluating and managing the risks facing the organisation. Budget spending centres shall employ internal auditing as an independent, objective assurance and

consulting activity designed to improve the organisation's operations. Budget spending centres shall ensure that internal auditing in their organisations is performed in accordance with the Common Guidelines for Internal Audit of Budget Spending Centres, and the approved annual internal audit plan, as prepared by the Head of the Internal Audit Service on the basis of the Internal Audit Service's long-term plan.

### Article 3 (Internal Auditing )

State internal auditors shall systematically review and evaluate risk management, control and governance which comprises the policies, procedures and operations in place to:

- establish, and monitor the achievement of, the organisation's objectives;
- identify and assess the risks facing the organisation's objectives;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies, procedures, laws and regulations;
- safeguard the organisation's assets and interests from losses arising from all kinds of irregularities;
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting processes.

The Head of the Internal Audit Service shall ensure the quality of internal auditing and that procedures and methods for the work of internal audit are clearly defined in compliance with the principles of internal auditing, the Slovenian Institute of Auditors' Standards for Internal Audit and with the Common Guidelines for Internal Audit of Budget Spending Centres.

The Head of the Internal Audit Service must possess appropriate skills and experience and suitable formal qualifications, and must acquire the title of a Verified State Internal Auditor or a State Internal Auditor.

The Head of the Internal Audit Service shall prepare long-term and short-term internal audit plans covering the current year and a budgetary period lasting up to five years.

### Article 4 (Budget Supervisory Service at the Ministry of Finance)

The Budget Supervisory Service at the Ministry of Finance shall be the body authorised for the development, guidance and co-ordination of the Public Internal Financial Control, and as such, in compliance with its competence, shall be responsible for:

- developing and maintaining common methodologies and techniques of state internal auditing;
- monitoring the implementation of the Common Guidelines for Internal Audit of Budget Spending Centres;
- review of Internal Audit Charters of budget spending centres;
- co-ordinating the activities of internal audit services in joint projects co-financed by EU funds where more than one budget spending centre is involved;
- professional assistance in the routine conducting of internal audits to budget spending centres and their internal audit services.

On the basis of its assignments and authorisations for supervision of the implementation of guidelines, methods and standards, the Budget Supervisory Service at the Ministry of Finance shall have free access to all documentation, premises, resources and personnel under the management control of budget spending centres and their internal audit services.

### **III. DEFINITION OF BASIC PRINCIPLES, PROCEDURES AND RULES OF INTERNAL CONTROL**

#### **Article 5 (Principles of Internal Control)**

The purpose of the internal control system and structure shall be to ensure economical, effective and efficient performance of budget spending centres, and control of their business operations on the basis of a uniform information system applied by budget spending centres, property management under appropriate guardianship, keeping uniform records on the scope and real value of capital investments, claims and liabilities, and other forms of property as regards public law entities.

Budget spending centres shall establish and maintain a system of financial management and internal controls as a plan of activities comprising management positions and policies, expressed through methods that include setting objectives and determining what resources are required to achieve them, working processes and practices, as well as measures to control risks, which together provide an appropriate assurance that the organisation will achieve:

- proper, economic, efficient and effective performance leading to the achievement of set objectives and quality services in compliance with the tasks of the budget spending centre;
- safeguarding of resources from losses resulting from negligence, misuse, inefficient management, errors, fraud and other irregularities;
- performing in compliance with laws, regulations and managerial instructions;

- processing, maintenance and storing of reliable accounting and other data, as well as accurate and transparent reporting of the data.

## Article 6 (Basic Procedures of Internal Control)

Achievement of objectives shall be an integral part of the management of every organisation. Budget spending centres have to face various risks, which may affect the achievement of set objectives. It shall be the task of the management to identify such risks, to estimate the probability of their occurrence, to predict their potential impact or exposure, and to decide which measures are to be taken in order to manage them properly. Therefore, risk management shall mean a process of identifying, estimating and monitoring risks, as well as a process of taking appropriate control measures to keep exposure at an acceptable level. Risk management shall be an integral part of the management of any organisation.

Risk management models have to be customised to meet the specific requirements of an organisation, since different entities have to respond to different circumstances and risks.

Irrespective of special cases, the basic control procedures to be applied by all budget spending centres above all refer to the control of the regularity of business events and accuracy of data. Such procedures shall comprise:

- the initial recording of business events; the competence and responsibilities of persons who initiate and approve business events (the competence and responsibilities must be precisely determined);
- the integrity and completeness of recording and processing of business events and data;
- the accuracy of recording business events.

The accuracy of recording business events shall be determined by formulating and utilising suitable forms and records used to register transactions and business events, and by determining the responsibility for procedures intended to detect errors and other irregularities.

The task of management control shall be to ensure the uninterrupted and accurate performance of basic control procedures and shall comprise:

- tasks following basic control procedures to verify the processed data;
- tasks furthering the regular review and development of basic control procedures.

The further development of basic control procedures shall comprise:

- authorisation and restrictions of access to resources and information;
- separation of duties of approval from the control competencies;

- reporting failures detected in control practices to the management, determining the competencies and responsibilities of the Chief Officer or management to perform transactions and make decisions.

#### Article 7

#### (Rules of Internal Control in Conducting Basic Assignments of Budget Spending Centres)

With regards to the principles of basic control practices referred to in Article 6 herein, budget spending centres shall regulate in detail the function of internal control for: issuing of tenders for public procurement; assuming liabilities charging the budget; making payments from the budget; recovery of claims in favour of the budget; determining liquidity; determining repayments into the budget; safeguarding public property and other assets.

The same shall apply for preparation of the following plans: financial plan of revenues and expenses; plan of development programmes; procurement plan; staffing plan; own activities plan; donations plan; plan of borrowing and issuing guarantees; plan of awarding subsidies, grants and other transfers from the budget; plan of selling, leasing or exchange of property owned by the Republic of Slovenia and local communities; plan for use of current and fixed reserves.

Internal financial controls including ex-ante controls, controls for detecting errors and guidance controls, and controls to reduce other risks exposure, shall ensure that:

- budget spending centres assume and fulfil obligations solely for the purpose, and to the maximum amount, determined in the budget;
- budget spending centres fulfil financial obligations in accordance with the time schedule and quota determined by the government;
- the assumption of liabilities charging the budget is based upon a written contract, unless it is statutorily determined otherwise;
- the assumption of liabilities resulting in payments in the following years is based upon a written contract, if the resources for this purpose have already been determined in the budget of the current budget year;
- liabilities charging the budget are paid only to rightful claimants and for acknowledged type and amount of expenses;
- liabilities charging the budget are paid within the statutorily determined deadlines set for each respective purpose;
- contracts for the procurement of goods and services, and leasing of buildings are made only in conformity with the regulations on public procurement;
- every expenditure from the budget is based on a reliable accounting document stating the obligations, and that the legal foundation and the amount of the liability stated in a reliable accounting document is verified prior to payment and attested in writing;

- receipts are accounted for in a timely and accurate manner;
- potential and actual debts are identified, recovered and accounted for in a timely and accurate manner;
- the report on the objectives and results achieved in the field of the direct budget spending centre's competence for the previous year is prepared and submitted to the ministry responsible for public finance together with the annual report;
- the standards for assessing the effectiveness and economy of budget resource use are established, as well as techniques for the measurement and reporting on the results achieved.

#### Article 8 (European Union Funding)

Budget users disposing of European Union funding (from the pre-accession assistance or from the European funds following the accession to the European Union) shall take into account the special conditions determining financial management, internal controls and the performance of internal audit, adopted on the basis of approved financing memoranda prior to or following the accession to the European Union. All irregularities detected in use of European funds or national co-financing shall be reported by budget spending centres to the Budget Supervisory Service without delay.

### **IV. DEFINITION OF BASIC PRINCIPLES, ORGANISATION AND REGULATION OF INTERNAL AUDITING**

#### Article 9 (Principles of Internal Auditing)

Internal auditing shall be an independent, objective assurance and consulting activity designed to improve an organisation's operations. It shall help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal auditing is the functional means by which organisational managers receive an independent assurance that internal controls are achieving their objectives and risks are being properly managed.

The performance of the Internal Audit Service shall be in accordance with the Common Guidelines for Internal Audit of Budget Spending Centres, issued by the minister, responsible for finance, with standards of internal auditing and

the code of professional ethics for internal auditors as issued by the Slovenian Institute of Auditors.

#### Article 10 (Own Internal Audit Services)

The officers responsible for drafting financing plans as provided in the second paragraph of Article 19 of the Public Finance Act (Official Gazette of the RS Nos 79/99, 124/00, 79/01, 30/02) shall be obliged to organise internal audit services to meet their needs and those of the units within their competence.

The budget spending centres the budget of which exceeds 500 million SIT shall ensure regular annual internal auditing of their operations by their own Internal Audit Service or in accordance with Articles 11 and 12 of these Regulations.

All other budget spending centres shall ensure the internal auditing of their operations, performed in the manner referred to above, at least once in each three-year period.

When organising and conducting internal audits and when establishing an Internal Audit Service, the budget spending centre shall consider in particular the following:

- Common Guidelines for Internal Audit of Budget Spending Centres;
- extent of contractual budget obligations of the budget spending centre;
- extent of items in the financial plan (value, number of transactions);
- extent of development programs;
- organisation chart of the budget spending centre;
- extent and complexity of specific tasks that the budget spending centre must fulfil in compliance with laws and regulations;
- number of employees;
- reporting method on objectives and results achieved as set in the relevant law;
- risks to which the budget spending centre is exposed.

#### Article 11 (Joint Internal Audit Services)

Several budget spending centres may organise a joint Internal Audit Service. Auditors of a joint Internal Audit Service shall report their findings directly to the Chief Officers of budget spending centres or to the management of the budget spending centres.

Any standstills in the work of a joint Internal Audit Service, which may occur when auditing a certain budget spending centre as a result of standstills in auditing of another budget spending centre shall not relieve the former of its

responsibility to carry out the audit plan in a timely manner.

Article 12  
(External Provision of Internal Auditing)

Budget spending centres shall be entitled to hire a private audit company to provide internal auditing services if:

- that company possesses the knowledge, skills and competence required for performing the audit. It is reckoned that a private company possesses the required knowledge, skills and competence if the team leader of the private audit company has obtained a Verified Internal Auditor Certificate issued by the Slovenian Institute of Auditors, and/or a State Verified Internal Auditor or State Internal Auditor Certificate;
- the private company is an accredited member of the profession;
- the private company possesses professional experience obtained in similar tasks;
- in performing internal audit, the private company follows the Common Guidelines for Financial Management and Internal Control and the Common Guidelines for Internal Audit of Budget Spending Centres.

If the budget spending centre hires an authorised audit company, it must do so on the basis of a public tender in compliance with the public procurement regulations.

Article 13  
(Internal Auditing by the Budget Supervisory Service at the Ministry of Finance)

The Budget Supervisory Service at the Ministry of Finance may provide internal audits for budget spending centres in accordance with its adopted annual plan in which it determines the budget spending centres to be provided internal auditing services taking into account its free capacity.

Article 14  
(Control of Public Institutions and Other Performers of Public Services)

When implementing control of public finance in public institutions and other performers of public services, the competent ministries and local administrations may use their own Internal Audit Services as a tool for such control. The Internal Audit Service of a competent ministry or local administration shall report to the minister or mayor on the findings of the audits concluded in public institutions and other performers of public services that are within the sphere of competence of the ministry or local administration.

Article 15

### (Procedures of Internal Auditing)

The internal auditing of direct spending centres shall encompass the field of work defined under Article 3 of these Regulations. The basic procedures of internal auditing are set out in the Common Guidelines for Internal Audit of Budget Spending Centres and include guidance on:

- planning the audit;
- testing, examination and evaluation of data and information;
- reporting of results and making recommendations to improve performance;
- follow-up to ascertain effects of corrective measures and to monitor performance of the audited entity.

When performing internal audits, state internal auditors shall comply with the principle of costs being commensurate with the benefits (the principle of economy).

### Article 16 (Implementation of Internal Auditing)

In order to ensure the independence and the high quality of the internal audit, the budget spending centres shall comply with the guidelines of internal audit of budget spending centres in establishing their Internal Audit Services:

- independence of the Internal Audit Service;
- professional qualified personnel and a sufficient quantity of personnel;
- programme for ongoing education and professional training of the personnel;
- harmonisation of internal auditing with other control bodies within the government and the Court of Audit;
- programme for ensuring quality to evaluate the performance of the Internal Audit Service.

When nominating or dismissing internal auditors, budget spending centres shall consider the opinion of the Head of the Internal Audit Service. When nominating and dismissing the Head of the Internal Audit Service they shall seek prior opinion of the Budget Supervisory Service at the Ministry of Finance.

The budget spending centre shall remain responsible for the system of financial management and internal controls and for internal auditing also where the internal auditing function is implemented in accordance with Article 11, 12 or 13 herein.

### Article 17 (Measures Taken on the Basis of Recommendations)

Based upon the written reports, proposals and recommendations of the Internal Audit Service, budget spending centres shall be obliged to adopt the scheme of measures to eliminate irregularities detected in their operations and deficiencies and weaknesses in functioning of internal control within the period not exceeding ninety days, and to immediately inform of their adoption the Head of the Internal Audit Service by a response report. The budget spending centre shall regularly report to the Head of the Internal Audit Service of their implementation. The scheme of measures shall also include, where appropriate, disciplinary procedures against persons that have committed the errors and irregularities disclosed during an internal auditing procedure as the result of a disciplinary infraction.

The Chief Officer or management of the budget spending centre must inform the person responsible for the audited entity or activity of the internal auditors' findings and the adopted measures, and charge him/her with the implementation of these measures. The Internal Audit Service may perform a follow-up audit to examine the implementation of measures on the basis of the decision of the Head of the Internal Audit Service, the budget spending centre or the Budget Supervisory Service at the Ministry of Finance.

#### Article 18 (Red Line Report)

Where, during internal auditing, an irregularity involving significant damage is detected or where there are reasonable grounds to believe that a criminal offence has been committed, the internal auditor shall immediately report to the Chief Officer or management of the budget spending centre and the Budget Supervisory Service at the Ministry of Finance. The Chief Officer or management of the budget spending centre shall immediately take the necessary measures to stop such acts and for their further investigation.

#### Article 19 (Conditions for Performance of Internal Audit)

The budget spending centre shall provide appropriate conditions for the Internal Audit Service to conduct its audits, and ensure the assistance and co-operation of all persons accountable.

While conducting audits, state internal auditors shall reserve the right to obtain all data deemed necessary for the successful and effective execution of an audit, and also the right of access to all premises, documentation, personnel and resources.

When a particularly complex issue arises in performing the audit, the Head of the Internal Audit Service may, with written approval of the Chief Officer or management of the budget spending centre, seek assistance from a specialised private audit company to accomplish the objective of the audit. The Chief Officer or management of the budget spending centre may not refuse approval without written justification.

If the Chief Officer or management of the budget spending centre does not approve the support of a private audit company, thereby limiting the auditor's scope of work, the state internal auditor must explain this in the final report and state all reasons of the Chief Officer or management for refusal.

Article 20  
(Special Notification)

If the budget spending centre refuses to take corrective measures in response to auditor's recommendations, the Head of the Internal Audit Service shall report this by means of a special notification to the Budget Supervisory Service at the Ministry of Finance without delay.

Article 21  
(Annual Summary Report)

The Head of the Internal Audit Service shall draft an annual report recapitulating all findings and recommendations based upon the audits conducted in the previous year, and corrective measures taken to eliminate errors and irregularities detected in operation of the budget spending centre or deficiencies and weaknesses of its internal control system, and submit it to the Chief Officer and/or management of the budget spending centre. A copy shall also be provided to the Budget Supervisory Service at the Ministry of Finance.

**V. RELATIONS BETWEEN THE BUDGET SUPERVISORY SERVICE AT  
THE MINISTRY OF FINANCE AND PERFORMERS OF PUBLIC  
INTERNAL FINANCIAL CONTROL FOR BUDGET SPENDING  
CENTRES**

Article 22  
(Regular Annual Report by the Budget Supervisory Service at the Ministry of  
Finance)

On the basis of annual and special reports received from the Heads of Internal Audit Services of budget spending centres, the Budget Supervisory Service shall prepare regular annual and, where deemed necessary, also special reports for the Minister of Finance and the government. In the regular annual report, the Budget Supervisory Service at the Ministry of Finance shall present not only a report on the activities of Internal Audit Services but shall also give an analysis of methodological inefficiencies of internal controls together with recommendations for their improvement. Special reports shall relate to inappropriate measures taken by and refusals of budget spending centres to implement recommendations for improvement. For these purposes

the Budget Supervisory Service at the Ministry of Finance may apply its own judgement in assessing the responsive actions of budget spending centres and their compliance with the recommendations.

Article 23  
(Control of European Union Funding)

The Budget Supervisory Service at the Ministry of Finance shall be authorised for pre-accreditation review, certification and other forms of independent finance control for all budget spending centres participating in performance of assignments or programmes co-financed from European funds. The Budget Supervisory Service at the Ministry of Finance shall conduct these reviews in accordance with procedures set out in the approved financing memoranda, as well as with other relevant laws and regulations.

All budget spending centres and other recipients of European funds must allow authorised officials of the Budget Supervisory Service at the Ministry of Finance and auditors of the European Commission and the European Court of Auditors free access to all documentation, premises and personnel when conducting independent supervisory work on the use of European financial assistance.

Internal Audit Services of all budget spending centres participating in the European financial assistance programmes shall co-operate with the Budget Supervisory Service at the Ministry of Finance, observe its proposals in planning audits, and keep it informed of all audits referring to the use of European financial assistance.

## **VI. TRANSITIONAL AND FINAL PROVISIONS**

Article 24  
(Adjusting Internal Regulations)

Budget spending centres shall adjust their internal regulations to meet the provisions of these Regulations no later than six months after their entry into force.

Article 25  
(Cessation of Validity of Regulations)

Upon entry into force of these Regulations, the Regulations on the Common Criteria for Organisation and Procedures of Financial Control of Direct Users of the State Budget of the Republic of Slovenia (Official Gazette of the RS No. 14/00) and The Instructions on Forms and Implementation of Internal Financial Control within Local Governments (Official Gazette of the RS No.

9/01) shall cease to be valid.

Article 26  
(Entry into Force)

These Regulations shall enter into force on the fifteenth day following their publication in the Official Gazette of the Republic of Slovenia.

No. 1246/02  
Done in Ljubljana, 22 July 2002

Minister of Finance  
Anton Rop, M.Sc.