

**REPUBLIC OF SERBIA
STATE AUDIT INSTITUTION**

**STRATEGIC PLAN OF
THE STATE AUDIT INSTITUTION
FOR THE PERIOD 2011-2015**

INTRODUCTION

There is an increasing awareness among the public about government service delivery. The issue of a responsive and efficient public sector is becoming more and more relevant and in order to meet such demands, policy makers need timely and reliable information about the performance of various government ministries, organizations and institutions, local governments, public enterprises and many others.

The State Audit Institution is an independent auditing and control body in charge of ensuring that the state's revenues are received appropriately and that the state's funds and assets are managed in a financially sound manner and in compliance with the decisions and intentions of the National Assembly of the Republic of Serbia. Through its work, this Institution will contribute to decreasing of corruption and increasing of anti-corruption culture in the society.

To make an effective contribution to the National Assembly's control and to promote good governance, the State Audit Institution needs to be strengthened in every significant and substantial facet. It is therefore my hope that the State Audit Institution will receive full support of the stakeholders in achieving our mission.

The State Audit Institution is committed to implementing the strategic plan, in order to achieve the stated mission effectively. I would like to express my sincere gratitude to the Office of Auditor General of Norway (OAGN) who contributed by providing valuable suggestions and inputs in course of preparing this document. I expect to receive continuous support and cooperation in the days to come for achieving strategic goals. I also appreciate the effort of the members of the Council of the State Audit Institution, supreme state auditors, the Office of the President of the State Audit Institution, as well as all staff of the State Audit Institution who contributed to the development of this Strategic Plan with their suggestions.

Radoslav Sretenovic
the President of the State Audit Institution
and Auditor-General

FOREWORD

Supreme audit institutions play a major role in auditing public funds and operations. They promote sound financial management and overall accountability for all beneficiaries included into public expenditure.

The reforms in the area of public finance of the Republic of Serbia were initiated in 2002 by enactment of the Budget System Law. Underlying goals of this reform were focused on intensifying the reform process of the entire budget through the system of consolidation of public sector and the unified system of budget preparation, planning, execution and control.

Legal framework for comprehensive implementation of the control mechanisms in the system of public finance was supplemented by enactment of the Law on the State Audit Institution in 2005. The State Audit Institution of the Republic of Serbia carries out the external audit of public sector bodies and is one of the key links in the formal system of financial accountability in the country.

Stipulated control mechanisms - internal audit and budget inspection should contribute to the establishment of efficient and effective accountability mechanisms in the public finance management. Since its establishment in 2007, the State Audit Institution has been building its capacities with the aim of enabling the Institution to play its role effectively and enhance good governance by promoting public accountability and transparency in accordance with the constitutional provisions.

In addition to increasing effectiveness and efficiency of the State Audit Institution within the current legal framework, improvement of independence and status of the Institution is recommended, in order to increase democratic control of public revenues and expenditure. The traditional view of an auditor as a person who verifies whether money has been used for an improper purpose or not, will have to change. The State Audit shall be interested to find out whether public funds have been used efficiently and whether objective, for which the funds have been allocated, have been realized. This is the concept of performance audit, which will be added to the tasks of a modern public sector auditor.

The basic principles of the State Audit Institution's development in the period to come are contribution to strengthening financial management accountability in public sector, establishment of the State Audit Institution on firm foundations with its operations that are carried out through application of internationally accepted standards, and observance of the principles of competency, independence, objectivity and transparency and, at the same time, building trust and respect of the public as a whole.

I ASPECTS OF STRATEGIC DEVELOPMENT

1. Importance and Goal of Strategic Development Plan

Strategic Plan covers the 2011-2015 period and should point to key factors to be used for developing the State Audit Institution on principles of supreme audit institutions of the most developed countries, with adjustments to changes of public service provisions and further changes in reforms of public finance management. It is of the utmost importance that the State Audit Institution gives its contribution, in order for the public sector to be able to manage these changes effectively. Therefore, it is necessary that the State Audit Institution develops its work through planning of activities necessary for audit of financial statements and compliance audit in the initial years since its establishment and, at the same time, to develop and expand its work on performance audit, issuing effective recommendations for changes to applicable laws based on information received during audit process.

In compliance with these goals and respecting the independence principle, the State Audit Institution should provide assurance on regularity of financial management to the National Assembly, the Government, audited entities and the public. Reports also include assessment whether public finance management is conducted with due observance of regulations and appropriate standards, along with assessment of the amount of public funds used.

Requirements for provision of assurance vary, depending on the goals that should be realized. Thus, when it comes to the National Assembly, the State Audit Institution is expected to contribute to realization of its supervisory functions through competent and objective audit report. The Government and its beneficiaries expect that the State Audit Institution provide competent contribution to improvement of its activities. The public stance is that the State Audit Institution provides objective and truthful information on assets allocated for financing public expenditures.

2. Institutional Framework

Main precondition for development of audit is existence of adequate legislative framework. Regarding that and in compliance with the highest legislative act, the 2006 Constitution of the Republic of Serbia, execution of all budgets is controlled by the State Audit Institution, while the National Assembly reviews the proposal of final statement of accounts of the Budget, having acquired opinion from the State Audit Institution. The highest state authority for audit of public funds in the Republic of Serbia is the State Audit Institution, which is independent institution, reports to, and is subject to supervision by the National Assembly.

Pursuant to the Constitution, the Law on the State Audit Institution was adopted, which became effective on 29th November 2005. That law stipulated the State Audit Institution is the highest public authority for audit of public funds in the Republic, it determined its activities, legal status, competence, organization and work. Also, the Law on State Audit Institution puts emphasis on independence and autonomy of the State Audit Institution as a public authority.

The Law on State Audit Institution determined the subject of audit. Pursuant to the Law on State Audit Institution, all public funds in the Republic, and/or all remunerations and expenditures in compliance with regulations on budget system, all financial statements, financial transactions, calculations, analyses and other records and information of audited entities, regularity of operations of audited entities, in compliance with the law, appropriateness of disposal of public funds, system of financial management and budget system control, internal control system, internal audit are subjects to audit.

Also, subject to audit are enactments and activities of audited entity, which produce or may produce financial effects on remunerations and expenditures of public funds beneficiaries, assets of the state, borrowing and issuing guarantees, as well as appropriate usage of funds available to audited entities, and regularity of operations of management and governance bodies and other responsible persons in charge of planning, execution and monitoring of operations of public funds beneficiaries.

Audited entities include all public fund beneficiaries, and/or direct and indirect budget fund beneficiaries, mandatory social insurance organizations (Republic Pension and Disability Insurance Fund, Republic Health Insurance Fund, National Employment Service), budget funds founded by separate law or regulations, for the purposes of achieving goal stipulated by separate republic, and/or local regulation or international treaties; according to that, audited entities are, practically, all beneficiaries constituting budget system of the Republic.

National Bank of Serbia is subject to audit, for which the State Audit Institution is obliged to submit compliance report each year on operations of the National Bank of Serbia, in part relating to usage of public funds. Pursuant to provisions of the law regulating the budget system, foreign exchange assets of the beneficiaries of the Republic Budget, mandatory social insurance organizations and local government budgets may be held only with the National Bank of Serbia, so that operations of this entity is of special significance.

Public enterprises, business companies and other legal entities founded by a direct, and/or indirect public fund beneficiary, legal entities in which direct, and/or indirect beneficiaries have participation in the capital, and/or participation in the management, along with legal entities founded by legal entities in which the state has participation in the capital, and/or in management, are also entities subject to audit.

Audit may cover non-repayable assets or guarantees, entities dealing with accepting, guarding, issuing and using public reserves, political parties, beneficiaries of European Union funds, donations and assistance from the international organizations, foreign government and non-governmental organizations and other entities using public funds and assets under control or at the disposal of the Republic, territorial autonomies, local authorities and mandatory social insurance organizations.

Audit is conducted with other legal entities dealing with audited entities only in terms of their operations with audited entities. State Audit Institution is obliged to determine in more detail through its enactment, the manner of conducting audit of these legal entities.

II STRATEGIC PLAN

This Strategic Plan determines the direction of development of the State Audit Institution in the coming medium term period, in order to be able to determine priorities, which the Institution must adhere to during the course of its work.

Strategic Plan sets the vision, mission and core values that the Institution must adhere to in its future work.

1. VISION, MISSION AND CORE VALUES

Vision Statement

The State Audit Institution is a recognizable, reliable and independent institution whose goal is to contribute to Parliamentary control and good governance in public sector.

The purpose of the vision statement is to provide direction to the State Audit Institution in terms of focus in its operations. The vision of the State Audit Institution reflects the consensus reached after wide consultations with both internal and external stakeholders. Thus, it provides a purpose the purpose and sense of shared aspirations within the State Audit Institution and external stakeholders in the promotion of good governance.

Mission Statement

The State Audit Institution is the supreme, independent state body in charge of auditing public funds in the Republic of Serbia, giving professional assurance to the National Assembly and the citizens of the Republic of Serbia that the public funds are spent effectively, efficiently and economically.

Mission statement is a brief and clear statement, which outlines the reasons for our existence, the functions that we intend to fulfill, our primary role and the methods through which we intend to fulfill this purpose.

Core Values

The core values that will guide the State Audit Institution and its staff are as follows: integrity, independence, objectivity, professionalism, professional secrecy, fair conduct, continuous professional development and open communication.

The independence, competences and responsibilities of the state auditor place high ethical demands on the State Audit Institution and its employees. Our Code of Ethics for state auditors and other employees in the State Audit Institution considers the ethical requirements in general and the particular values and principles which should guide the daily work of auditors.

The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the supreme audit institution that they represent, and the quality and validity of their audit work in an unfavorable light, and may raise doubts about the reliability and competence of the supreme audit institution itself. Therefore, it is of the utmost importance that the state auditors promote the trust, confidence and credibility by applying the ethical requirements of the concepts embodied in the key words, such as integrity, independence and objectivity, confidentiality and competence.

Core values, to be taken into account by the State Audit Institution when conducting activities, are the following:

1. Integrity

The staff of the State Audit Institution is required to conduct themselves beyond reproach and act in the best interest of the public. They shall adhere to high standards of behavior in the course of their work and in their relationships with the staff of audited entities. In order to maintain the public confidence, the conduct of auditors should be above suspicion and reproach. The auditors are also required to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, make decisions with the public interest in mind and apply absolute honesty in carrying out their work and in handling the resources of the supreme audit institution.

2. Independence

The staff of the State Audit Institution shall strive to discharge their duties independently and impartially, in accordance with statutory requirements. Independence from the audited entities and other outside interest groups is indispensable, and implies that auditors should behave in a way that increases, or in no way diminishes, their independence.

3. Objectivity

The staff of the State Audit Institution shall strive to ensure that all conclusions expressed in opinions and reports are exclusively based on evidence obtained in accordance with applicable auditing standards. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

4. Professionalism

It is expected from the staff of the State Audit Institution to demonstrate professional competence and skills in the discharge of their duties. Auditors should use methods and practices of the highest possible quality in their audits and, when conducting audit and issuing reports, they shall have a duty to adhere to basic postulates and generally accepted auditing standards.

5. Professional secrecy

The staff of the State Audit Institution must not disclose to third party any information obtained in the course of work, either orally or in writing, except for the purposes of meeting the statutory or other identified responsibilities as part of the supreme audit institution's normal procedures or in accordance with relevant laws.

6. Fair Conduct

The staff of the State Audit Institution should conduct themselves in a manner which promotes cooperation and good relations between auditors and within the profession. It is therefore in the interest of supreme audit institution, as well as of the general public, that the auditor deals with fellow auditors in a fair and balanced way.

7. Continuous Professional Development

The State Audit Institution shall endeavor to provide continuous training in order to update and improve the skills of its staff. Members of staff are also expected to take a personal responsibility to update and improve the skills required for the discharge of their professional responsibilities.

8. Open Communication

The staff of the State Audit Institution is encouraged to share their views and opinions on the management and organization of the Institution as a whole, while dealings with audited entities shall be transparent, open and honest.

9. Competence

The staff of the State Audit Institution has a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work, which would enable them to perform their duties competently and with impartiality. Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entities.

10. Credibility

In order to maintain public confidence, the State Audit Institution's reports and opinions shall be prepared with observance of the highest professional and ethical standards and considered thoroughly accurate and reliable by knowledgeable third parties.

11. Trust

The legislative and/or executive authority, the general public and the audited entities are entitled to expect the State Audit Institution's conduct and approach to be above suspicion and reproach and worthy of respect and trust.

12. Impartiality

The staff of the State Audit Institution should make use of information brought forward by the audited entities and other parties and take it into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entities and other parties, but the auditors' own conclusions should not be affected by such views.

13. Political Neutrality

It is important that auditors maintain their independence from political influence, in order to discharge their audit responsibilities in an impartial way. This is highly relevant for auditors, since the State Audit Institution works closely with the legislative authorities, the executive authority or other government entity empowered by law to review the State Audit Institution's reports.

14. Prevention of Conflict of Interest

When the State Audit Institution is requested to provide advice or services other than audit to an audited entity, special care should be taken that these services do not lead to a conflict of interest. The staff of the State Audit Institution should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity. Auditors should avoid all relationships with managers and staff in the audited entities and other parties, which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

2. STRATEGIC GOALS AND OBJECTIVES

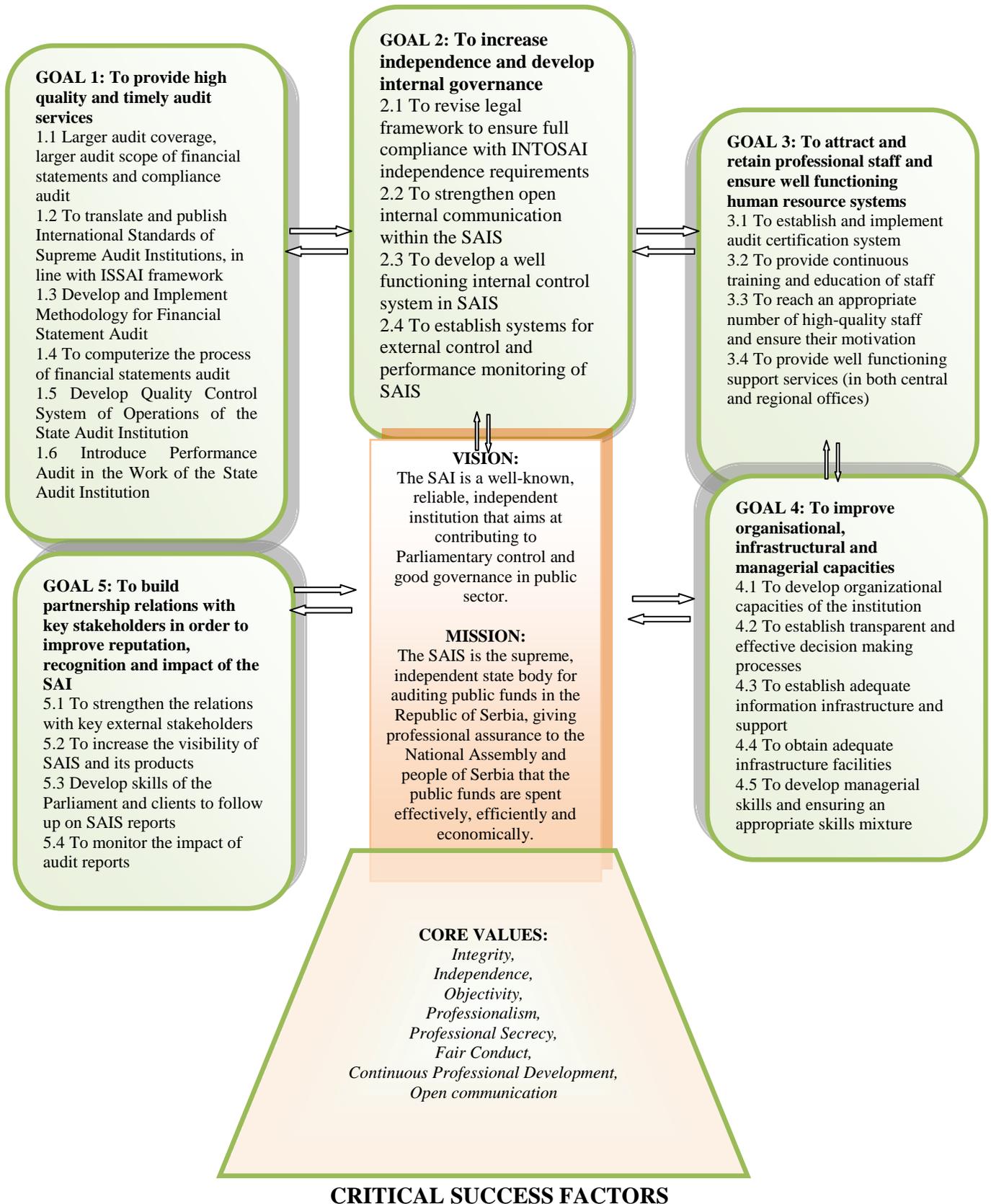
The State Audit Institution must focus its activities on realization of certain objectives it defines, in order to respond to various requests. Strategic goals for the 2011-2015 period may be grouped into the following items:

- 1) To provide high quality and timely audit services;
- 2) To increase independence and develop internal governance;
- 3) To attract and retain professional staff and ensure well functioning human resources systems;
- 4) To improve organizational, infrastructural and managerial capacities;
- 5) To build partnership relations with key stakeholders in order to improve reputation, knowledge and impact of the State Audit Institution.

For the purpose of realization of main strategic goals, the State Audit Institution defined certain objectives, which aim to contribute to realization of its vision and mission.

Strategic goals and objectives are laid out in the following diagram.

DIAGRAMATIC SUMMARY OF GOALS AND OBJECTIVES



Description of Goals and Objectives

1. Provide high quality and timely audit services

- 1.1. Larger number of entities and scope of audit;
- 1.2. Translate and publish International Standards of Audit, in compliance with ISSAI¹ framework;
- 1.3. Develop and implement methodology for financial statement audit;
- 1.4. Computerize process of financial statement audit;
- 1.5. Develop quality control system of operations of the State Audit Institution;
- 1.6. Introduce performance audit in the work of the State Audit Institution.

1.1. Larger number of entities and scope of audit;

Quality of audit work depends upon many issues. One of them is development and implementation of audit plans. State Audit Institution intends to increase number of planned audits during the period, and establish a mechanism for monitoring and evaluation of planned activities. It is expected that this will assist the State Audit Institution to increase audit coverage and fulfill legal deadlines for delivering reports to the National Assembly.

In order to realize this objective:

a) Department for audit of the Budget of the Republic of Serbia and budget funds shall continue with audit of financial statements of budget fund beneficiaries until 2015, with gradual increase of number of audited entities, which are direct beneficiaries, and expansion of scope to include indirect budget funds beneficiaries as well. Also, agencies and funds will be covered, which are founded by direct or indirect budget fund beneficiary.

Along with financial statement audit, compliance audit shall be conducted, which includes reviewing financial transactions and decisions regarding income and expenses, in order to determine whether transactions in question have been executed in compliance with the law, other regulations, issued authorizations and for planned purposes.

Through audit of financial statements of audited entities, the Department will give opinion on spending of budget funds, whereby each year larger number of beneficiaries will be included, both direct and indirect, and also agencies will be included that are founded by such entities.

Department will continue to issue recommendations regarding arranging the budget system and budget records.

b) Until 2015, the Department for audit of the budgets of local governments shall gradually increase number of audits of financial statements and annual statements of accounts, along with compliance audits of local governments.

¹ ISSAI – International Standards of Supreme Audit Institutions

For the purpose of realizing this objective, it is necessary to open new job positions in organizational units outside the head office of the Institution, in order to use available resources more economically. Also, vacancies should be filled and new positions should be opened, taking into consideration number of local government units and need to implement audits in all units within reasonable deadline.

Department for audit of budget of local governments will conduct audit of financial statements of the annual statement of accounts and compliance audit of territorial autonomy and local self-government, their direct and indirect beneficiaries, as well as other budget funds beneficiaries at their territory.

Through its work, the Department will contribute to better control of budget funds spending and high-quality implementation of applicable regulations during local government's work. Audit reports, which represent the result of the work conducted by the Department, give information on work of local authorities to state bodies, local government bodies and the public.

Department for audit of budgets of local authorities will, by the end of period stipulated by the Strategic Plan, have highly trained audit staff, experienced in audit, which will, with implementation of adopted audit standards and adopted methodology, be more efficient and conduct larger number of audits during the year. Based on recommendations received during audit processes, local governments will improve their work, while the Department will try to influence competent authorities to change and harmonize regulations that directly affect the work of local governments. It will, also, facilitate work of auditors. State Audit Institution will develop information technology, which will enable auditors to analyze data, received from audited entities, more efficiently.

c) Department for audit of mandatory social insurance organizations conducts audit of annual statement of accounts of the Republic Pension and Disability Insurance Fund, Republic Health Insurance Fund and National Employment Service.

During the period covered by the Strategic Plan, audit of financial statements and compliance audit should be implemented, in part relating to costs allocated for work of mandatory social insurance organizations. Plan is to increase number of audited entities to which funds are transferred for conducting activities in the area of exercising rights stemming from pension and disability insurance, health insurance and unemployment insurance.

In order to realize that objective, it is necessary to start filling vacancies and open up new job positions in organizational units outside the head office of the Institution, in compliance with the needs of the Institutions. In the coming years, number of employees should be increased, in order to establish sufficient number of teams for gradual increase of scope and number of audits.

d) In the Department for audit of the National Bank of Serbia, in part relating to the usage of public funds and operations with the national budget, increase of audit coverage will be realized so that the audit will cover, in addition to the National bank of Serbia, other entities as well, that fall within the competences of this Department.

In the coming period, agencies and other audited entities, using public funds, will be included into audit.

For larger number of audits, it is necessary to increase number of employees, and to have additional and continuing education for current and newly employed staff.

Contribution to the work of the Department involves increase of responsibilities in spending and management of public assets, as well as ensuring that misstatements and irregularities, detected with audited entities during audit, do not repeat in future.

Department will, by the end of the period covered by the Strategic Plan, clearly and precisely define the tasks, fully realize the staff plan, receive information technology support, establish continuing education and quality control.

e) Department for audit of public enterprises, business companies and other legal entities founded by or with participation in the capital owned by or managed by the public funds' beneficiary will, until 2015, gradually increase number of audits of financial statements and compliance audits of operations of public enterprises in the Republic of Serbia.

Planned directions of the Department's operations are:

- Conducting audit with entities from the competence of the Department, in order to correctly record, make use of and dispose assets and properties owned by the public and to manage the state capital;
- In the compliance audit of entities falling into competence of this Department, due care shall be placed on public procurements;
- Through information from the management letter and recommendations from the reports on conducted audits, influence shall be made on adoption of correct business decisions;
- Through conduct of audit, influence shall be made on mitigation of risk that entities, within the competence of this Department, prepare inaccurate and non-objective financial statements;
- Influence on introduction and development of internal controls and internal audits at entities falling within the competence of the Department.

1.2. Translate and Publish International Standards of Audit, in Compliance with the ISSAI Framework

State Audit Institution shall translate, conduct legal and technical review and successively publish the following guidelines from the ISSAI framework.

In 2011:

- Reporting Guidelines: 1700 - Forming an Opinion and Reporting on Financial Statements., 1705 - Modifications to the Opinion in the Independent Auditor's Report, 1706 - Emphasis of Matter Paragraph and Other Matter paragraphs in the Independent Auditor's Report, 1710 - Comparative Information - Corresponding Figures and Comparative Financial Statements, 1720 - The Auditor's Responsibilities relating to Other Information in Documents Containing Audited Financial Statements.

In 2012:

- Guidelines for Audit Planning: 1200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards

of Auditing, 1210 - Terms of an Engagement, 1300 - Planning an Audit of Financial Statements; risk assessment (1315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, 1330 - The Auditor's Responses to Assessed Risks), materiality assessment (1320 Materiality in Planning and Performing an Audit); sampling (1530 - Audit Sampling).

- Guidelines for Execution of Audit: 1220 - Quality Control for Audits of Historical Financial Information, 1230 - Audit Documentation, 1260 - Communication with those Charged with Governance, 1265 - Communicating Deficiencies in Internal Control to Those Charged with Governance, 1450 - Evaluation of Misstatements Identified during the Audit, 1500 - Audit Evidence, 1501 - Audit Evidence - Specific Considerations for Selected Items, 1510 - Initial Audit Engagements - Opening Balances, 1520 - Analytical Procedures, 1540 - Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures, 1550 - Related Parties, 1560 - Subsequent Events, 1570 - Going Concern, 1580 - Written Representations, 1600 - Special Considerations - Audits of Group Financial Statements (incl. the Work of Component Auditors), 1610 - Using the Work of Internal Auditors , 1620 - Using the Work of an Auditor's Expert and Management, 1800 - Special Considerations—Audits of Special Purpose Financial Statements, 1805 - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, 1810 - Engagements to Report on Summary Financial Statements.
- Compliance Audit Guidelines: 1240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, 1250 - Consideration of Laws and Regulations in an Audit of Financial Statements, 4000 - General Introduction to Guidelines on Compliance Audit , 4100 - Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements, 4200 - Compliance Audit Guidelines Related to Audit of Financial Statements.

1.3. Develop and Implement Methodology for Financial Statement Audit

Manual for performing audit shall contain methodological instructions for performing audit. Also, certain policies of the State Audit Institution may also be defined, regarding significant and constant issues (for instance, selection of the statistical sampling method, which will be applied to certain transactions).

Methodology for performing audit represents a set of rules and procedures, which prevent the audit process to develop spontaneously. In that way, process of making routine auditor's decisions in certain situations is avoided. Methodology contains instructions for valuation and review of various internal controls and inherent risk, instructions for review of transactions and balances, then volumes of data to be used for certain analyses, as well as instructions for making decisions regarding materiality. This document should provide for efficient quality control of the work of auditor. End goal is high-quality audit (financial, compliance and performance audit), which shall be achieved by meaningful procedures and equal behavior under equal or similar conditions.

1.4. Computerize Process of Financial Statements Audit

Until 2012, the State Audit Institution shall identify computer assisted audit tools, relevant for the audit process. Procurement of the above-mentioned tools shall be made, after which they will be used in everyday operations.

1.5. Develop Quality Control System of Operations of the State Audit Institution

Quality control shall be ensured in compliance with ISSAIs 40 and 1220.

It shall encompass management responsibilities for quality within the supreme audit institution, relevant ethical requirements, required human resources, acceptance of audit engagements, continuation of engagements, special audit engagements.

1.6. Introduce Performance Audit in the Work of the State Audit Institution

According to the legislation, performance audit includes reviewing the manner in which budget funds and other public funds are spent, for the purposes of acquiring sufficient, adequate and reliable evidence for reporting whether the assets of the audited entity have been used in compliance with the principles of economy, efficiency and effectiveness, and in compliance with the planned goals.

Performance audit is focused on performance and intends to provide answer whether assets invested are used properly and whether assets are invested properly. In that way, answers are provided to questions whether public assets are invested in compliance with adequate administrative principles and management practices and policies. Furthermore, it means that the managers of beneficiaries of public funds are responsible for fiscal, management and program competence they have been entrusted with. Also, budget beneficiaries, and/or audited entities, are responsible for development of budget, and/or financial plan, for planning, programming, budget execution, and/or financial plan execution, for accounting, control, reporting, supervision, which make them responsible also for determining and realizing established objectives. Assessment of realization of established objectives is the base for performance audit. In that way, it is determined whether activities, programs of certain entity are managed in such a way as to provide for economical, efficient and effective operations.

Since this represents a different type of audit, there is a need to implement detailed preliminary review before starting with preparation of performance audit plan. Within these activities, we will take into account practices and experiences that, during their work, other supreme audit institutions use, along with monitoring and using knowledge acquired from financial statement audits and compliance audits.

In the introductory phase of performance audit, the State Audit Institution shall acquaint its stakeholders with differences between goals of financial statement audits and compliance audits on one hand, and performance audit goals on the other hand, thus enabling them to understand the difference between findings of those audits.

By the end of the period covered by the Strategic Plan, other conditions will be ensured, necessary for implementation of performance audit. Special emphasis will be paid to selection and training of staff. In that respect, introductory training on performance audit will be implemented for the existing audit staff. State Audit Institution

shall ensure continuous training for performance audit, which will develop auditors' skills and enhance capacities of the Institution.

By the end of the period covered by the Strategic Plan, the State Audit Institution shall execute a pilot performance audit, execution of which is necessary, and in addition to selecting staff, it will develop a methodology and guidelines for implementation of this type of audit.

The State Audit Institution shall use acquired experiences and results of the financial statements audits and compliance audits to maximum extent in identifying risks and entities or only entities for performance audit. Through all three types of audit, the State Audit Institution shall be able to present a more complete analysis of operations of audited entities, thus providing overarching insight into spending of funds of the taxpayers.

2. Increase Independence and Develop Internal Governance

2.1. Revise the legal framework, in order to ensure full compliance with INTOSAI² requirements in terms of independence

State Audit Institution shall, together with Sigma, execute an analysis of current legislation in light of Mexican Declaration and suggest amendments, during 2011 and 2012.

During 2012, SAI will review deficiencies detected during the analysis with relevant stakeholders.

2.2. Increase Open Internal Communication in the State Audit Institution

In 2012, the State Audit Institution shall, in cooperation with the United Nations Development Program, prepare internal communications procedures in compliance with its core values, and apply such procedures in everyday work at all levels in the Institution.

In 2012, Information Technology Unit shall establish Intranet, in order to support internal communication.

2.3. Develop Functional Internal Control System in the State Audit Institution

In 2014, internal control systems shall be established and implemented for:

- Financial management
- Human resources
- Communication procedures
- Planning and reporting

Over the duration of the entire period covered by the Strategic Plan, the State Audit Institution shall monitor its implementation annually, through preparation of annual operating plans.

² INTOSAI – International Organization of Supreme Audit Institutions

2.4. Develop Systems for External Control and Monitoring of Results of the Work of the State Audit Institution

In 2012, the State Audit Institution will propose initiative in order to become subject of external audit. One of the goals of the State Audit Institution is to prepare itself for peer review by 2015.

3. Attract and Retain Professional Staff and Ensure Well Functioning Human Resources Systems

3.1 Establish and Implement Audit Certification System

Within the activities on implementation of the certification system, the Council of the State Audit Institution adopted in the end of 2010 the Manual on Program and Manner of Taking Tests for Acquiring State Auditor and Certified State Auditor Titles, and appointed a Commission for Taking Tests for Acquiring State Auditor and Certified State Auditor Titles. Then, the Institution opted for implementation of the program which will be organized internally, with engagements of the external lecturers. Lecturers engaged were prominent experts with significant international experience in the area of audit of public funds.

In the beginning of April 2011, preparatory activities started on implementation of the training for acquiring audit titles, in compliance with the Training Program and taking of exams for acquiring state auditor and certified state auditor titles - application of candidates for training for acquisition of audit titles, conclusion of contracts with lecturers on development of Manual for Training and on Implementation of Training.

The training began in the second half of August 2011, with lectures and exercises with the exam "Public Finance System"; it continued with lectures from the exam "Budget Accounting System", while lectures on exam "Real Sector Audit" is underway. In the end of November, it is expected to start with training on the exam titled "Public Sector Audit", which will, according to the work plan, be completed by the end of the year, when entire cycle of the training for acquiring state auditor titles will be finished.

Bearing in mind that the training cycle and exams for acquiring state auditor and certified state auditor titles is implemented in the transition period, ending in mid 2012, by the end of the year the Council shall adopt the list of topics for the final written paper in the area of public sector audit, which will mark the beginning of training for acquiring certified state auditor. Training for acquisition of this title may be organized in the form of consultations.

After completing exams for acquiring state auditor and certified state auditor titles, the Commission for Taking Tests for Acquiring State Auditor and Certified State Auditor Titles shall issue a paper on completion of exams, based on which the Auditor-General shall issue appropriate certificates on audit titles.

Record shall be kept on papers and certifications, and Register shall be kept on persons that acquired state auditor and certified state auditor titles. Activities on introduction of record and Register shall be done at the same time with training of the candidates for acquiring auditor's titles.

After expiry of the transition period, in the coming period covered by the Strategic Plan, the Institution shall continue with activities on training and taking of exams for acquiring auditor's titles.

3.2 Provide Continuous Training and Education of Staff

Precondition for training and education of staff is that the State Audit Institution selects staff with competence and experience for conducting training needs analyses and for preparation of the training strategy.

3.3 Reach Appropriate Number of Staff and Ensure their Motivation

Human resources department shall prepare human resources policies, which will include planning of new employees, selection of new employees, system of assessment of work results of existing and new staff (such as the assessment of the work results and bonus compensation system).

3.4 Provide Well Functioning Support Services (in both central and regional offices)

State Audit Institution shall continually enhance work of its support services, primarily information technology service, legal service, human resources service, international relations service, public relation service, financial management service.

4. Improve Organizational, Infrastructural and Managerial Capacities

4.1. Develop Organizational Capacities of the Institution

During the entire period covered by the Strategic Plan, the State Audit Institution shall continuously define results it wishes to realize annually, and at the same time it shall strengthen cooperation with other supreme audit institutions in order to exchange good practices.

4.2. Establish Transparent and Effective Decision-Making Processes

In order to realize the previous goal, the State Audit Institution shall strengthen teamwork and communication skills, continually acquaint staff with decisions adopted by the Institutions, monitor efficiency of implementation of decisions and assess the quality of work in all domains of the work of the Institution.

4.3. Establish Adequate Information Infrastructure and Support

During 2012, and 2013, the State Audit Institution shall ensure appropriate information infrastructure, train staff for monitoring information support and train staff to

implement such support, in compliance with information infrastructure development plan.

5. Build partnership relations with key stakeholders in order to improve reputation, recognition and impact of the State Audit Institution.

5.1. Strengthen Relations with Key External Stakeholders

During entire period covered by the Strategic Plan, as it did in the past, the State Audit Institution shall submit to the National Assembly timely and high-quality audit reports, establish regular communications channels with other independent regulators, organize round tables with media and civil society organizations, organize coordination meetings with donors and implementing partners. This practice shall be expanded through organization of annual meetings with audited entities, and trainings of relevant staff will be organized for communications with external stakeholders.

5.2. Increase Visibility of the State Audit Institution and Its Products

During the entire period covered by the Strategic Plan, the State Audit Institution shall, as it did in the past, update its official Internet website and make audit reports publicly available and suitable for use by the public.

During 2012, with assistance of the United Nations Development Program, the State Audit Institution shall develop and implement External Communication Strategy.

5.3. Develop skills of the Parliament and Clients to follow up on SAI's Reports

State Audit Institution shall endeavor to establish and expand cooperation with the Finance Board of the National Assembly and relevant boards from other countries. Also, it will continue to cooperate with members of board in charge of finances and with other MPs as well.

5.4. Monitor Impact of Audit Reports

The State Audit Institution shall endeavor to improve manner of follow up process and to include in its audit reports, within special section, information on follow-up and measures undertaken in compliance with audits performed in previous years.

3. IMPLEMENTATION OF STRATEGIC PLAN

Implementation of Strategic Plan is a continuing process of change management, which we can expect will influence the organizational structure of the State Audit Institution, development of its operational capabilities, human resources management, as well as procedures and policies during conduct of planned activities.

Implementation of the Strategic Plan, as a process of transforming strategy to business activities of the Institution, includes a set of continuous steps:

1. Comparison of the existing organizational structure of the Institution with goals set in the Strategic Plan;
2. Breaking down the defined strategy to a set of specific steps;
3. Defining success;
4. Creating the manner of strategic goals realization;
5. Monitoring the implementation process, with emphasis on needs for modifications, in line with arising circumstances.

State Audit Institution opted for the specific implementation model with regard to Strategic Plan, which includes process management using goals. This model includes two major elements:

- Goals on lower organizational levels would need to be complied with goals from higher organizational levels.
- Including employees in the planning processes, creating quantitative and qualitative results of the process, in order to assure employees that goals can be achieved as basis for success.

State Audit Institution is responsible for management of Strategic Plan implementation process. Framework for successful implementation includes several principles:

- Communication strategy on all levels aims to provide understanding by all employees in the Institution, presentation of indicators and measures of success of Strategic Plan Implementation, as well as to acquire feedback on Strategic Plan.
- Review of Strategic Plan through operational plans is based on creating cause-consequence operating plans, which clearly connect activities and processes. That would ensure understanding and accepting the Strategy, increase of motivation and creation of positive environment, which leads to increase of efficiency and effectiveness of work in the final period of implementation of Strategic Plan.
- Harmonizing organizational structure with Strategic Plan is aimed at creation of synergy between different departments and adjustment of key parameters of organization structure with requirements surrounding implementation of adopted Strategic Plan.
- Clear definition of responsibilities and authorizations of participants in the implementation process mean including all management structures in the process of developing matrix of responsibilities and authorizations, determining type and levels of responsibilities, as well as designing mutual matrix of tasks, responsibilities and authorizations based on individual proposals.

3.1. Risk Management in Strategic Plan Implementation

Goal of the State Audit Institution is to identify, measure and assess risk in each department, in order to ensure integrated risk approach at the level of the entire Institution. Risk management includes defining a set of management methods and techniques which will be used for mitigating possibilities of occurrence of unwanted and detrimental effects, and/or increase of possibilities for occurrence of planned results.

The concept of risk management include the following:

1. Constant and systemic risk identification;
2. Forecast and assessment of risks;

3. Implementation and planning of selected measures contributing to risk mitigation;
4. Finding preventive measures in order to decrease risks that may arise in implementation, review thereof and analyze costs regarding preventive measures.

During implementation of the volume of risks, which is directly linked to establishment of changes in the work method. Control of implementation of risk responses will be done in order to determine whether planned responses are adequate and whether new responses should be introduced. Establishing continuing risk control process includes continuing risk identification system, risk assessment and developing strategy for responding to possible risks. It means that during implementation of the Strategic Plan, the planned Strategy will constantly be adjusted to new circumstances.

Successful risk management is ensured by defining the following elements: competent employees, division of tasks between employees supervising risk and compliance of operations by employees directly managing the risk, clear individual tasks, as well as responsibilities towards risks being assumed.

4. EVALUATION

Issue of measuring the success of implementation of the Strategic Plan of the State Audit Institution is particularly important because audit of public sector is a state function that ensures control, transparency and responsibility in management of public finances and state property. High-quality evaluation is particularly important with such complex and responsible processes, because the more important it is, the more difficult it is to implement it.

Monitoring implementation of the Strategic Plan includes monitoring different activities necessary for its realization. It, also, includes determination as to whether the original plan should be subject to changes in the environment of the State Audit Institution.

In the evaluation process, the State Audit Institution may evaluate the Strategic Plan implementation process as well. Evaluation of the development process of the Strategic plan means determining whether the process, followed by the State Audit Institution when developing Strategic Plan, produced desired results, whether it was efficient and had appropriate foundations. This evaluation provides very good data for entry into the next cycle of strategic planning of the State Audit Institution. It, also, assists the State Audit Institution to establish the strategic planning process and continue with the process in regular intervals. Evaluation of the Strategic Plan implementation helps the State Audit Institution to determine the success level according to the established measurements. Experiences acquired in this stage assist the State Audit Institution in activities regarding future planning.

In the evaluation process, it will be assessed whether activities of the State Audit Institution contribute to realization of the defined strategic goals. This also pertains to reports that the State Audit Institution submits to the National Assembly, as well as to opinions, recommendations and advices it issues.

It is necessary to determine the success indicators annually. Comparison of the achieved goals and results will contribute to analysis of strategic goals realization.

Measurement of the success of the implementation of Strategic Plan of the State Audit Institution shall be done through:

- measuring the success of results of activities;
- measuring the success of managing the organization;
- measuring the success of the work of the staff;
- measuring the success of financial management.

Success indicators should provide valuation of results, so that the data on the following are available:

- how the State Audit Institution helps beneficiaries of its reports, as well as audited entities;
- how key beneficiaries of the reports of the State Audit Institution and audited entities respond to audit findings;
- how attitude is changed towards detected irregularities at audited entities, as a result of the work of the State Audit Institution.

Together with measures used in PEFA³ I OECD⁴/SIGMA⁵ reports, these measures and indicators may show the contribution of the State Audit Institution to achieving national goals of developing public administration.

³ PEFA – Public Expenditure and Financial Accountability.

⁴ OECD – Organization for Economic Cooperation and Development.

⁵ SIGMA – Support for Improvement in Governance and Management.