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BOSNIA JUSTICE SECTOR DEVELOPMENT PROJECT II

REPORT ON CAPACITY ASSESSMENT OF SIX MODEL PROSECUTOR'S OFFICES

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BOSNIA JUSTICE SECTOR DEVELOPMENT PROJECT II

REPORT ON CAPACITY ASSESSMENT OF SIX MODEL PROSECUTOR'S OFFICES PERTAINING TO STRATEGIC AND OPERATIONAL PLANNING, FINANCIAL MANAGEMENT AND PROGRAM BUDGETING

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TABLE OF ACRONYMS

EWMI	East-West Management Institute, Inc.
USAID	United States Agency for International Development
USG	United States Government

1. INTRODUCTION

Relevant to the Consulting Services Agreement number CA-C1-08-2010 dated August 17 2010 with "East-West Management Institute" we have visited six model prosecutor's offices, which have been included in "JSDP" project in Bosnia and Herzegovina,

Our visits included following prosecutor's offices: Federal prosecutor's office of Federation of BiH (Valtera Perića 15, Sarajevo), District prosecutor's office in East Sarajevo (Karađorđeva 5 I.Sarajevo), District prosecutor's office in Trebinje (Vuka Karadžića 13, Trebinje), Cantonal prosecutor's office of Hercegovačko-neretvanski canton (Ante Starčevića 22, Mostar), Cantonal prosecutor's office of Zapadno-hercegovački canton (Obilazna cesta bb, Široki Brijeg) and Cantonal prosecutor's office of Bosansko-podrinjski canton (Zaima Imamovića bb, Goražde).

The first goal of our visits to prosecutor's offices was to make a snapshot of current situation, while taking following aspects in consideration: equipment, personnel occupancy, efficiency, financing and financial reporting; upon which special report would have been formed. Second goal of our visits was to introduce prosecutor's offices' management with a necessity for making strategic plans and to, in that sense, underline strategic goals of prosecutor's offices, and to identify significant risks which are an obstacle to reaching established goals.

The performance of all visited prosecutor's offices is based on particular laws that regulate work of these offices. Laws that regulate work of prosecutor's offices in Federation BiH were passed by the The High Representative, through the decision from August 21 2002 (Law on Federal prosecutor's office, Law on Cantonal prosecutor's office of Hercegovačko-neretvanski canton, Law on cantonal prosecutor's office of Zapadno-hercegovački canton, Law on cantonal prosecutor's office of Bosansko-podrinjski canton). According to these laws, a prosecutor's office is an independent state body which, within the rights of particular territorial unit, undertakes legally established measures in view of investigative actions. Establishment, organization and authority of prosecutor's offices in Republika Srpska are governed by the Law on prosecutor's offices of Republika Srpska.

During our visits, survey was performed and documentation was collected, which is a base for making of this report. Prosecutor's office's highest ranked and most liable personnel were present during meetings in all offices. In four prosecutor's offices we talked to principal prosecutor (East Sarajevo, Trebinje, Mostar and Široki Brijeg); while in two cases (Federal prosecutor's office and Goražde prosecutor's office) we talked to the Deputy to Principal Prosecutor. All meetings were attended by secretaries to prosecutor's offices (or personas in charge for this job in offices that currently don't have secretary) as well as with personnel in charge for financial – accounting function.

Main problems emphasized during our visits by the management of prosecutor's offices relate to following issues:

- All prosecutors' offices emphasize a problem of lack of sufficient number of prosecutors and administration staff.
- There is a problem of inadequate or insufficient space in all prosecutors' offices.

- Problem of insufficient budget, which does not allow for apt maintenance of offices, timely payment to experts and purchase of equipment, was emphasized in all prosecutors' offices but one (Goražde).

2. OFFICE SPACE AND EQUIPMENT

2.1. Office space

Majority of prosecutor's offices (four offices) are located in partitions of buildings used by other judicial organs or the police. Only two prosecutor's offices (Mostar and Trebinje) are located in separate buildings. At one of the prosecutor's offices (Federal) office space is dislocated across several floors, which is an obstacle to their performance.

Office spaces currently used by prosecutor's offices are sufficient for current number of personnel except in one office (Federal). However, once all personnel under the systemization scheme are hired, office space will be inadequate in all prosecutors' offices but one (Mostar).

There is a necessity for improvement of office spaces in all prosecutors' offices, which is impossible task to achieve due to lack of budget funds. In some prosecutor's offices, such as in Mostar and in Trebinje, more significant improvements are needed due to obsolete roofs, moisture on the ground floors, etc., which is a result of irregular maintenance due to lack of funds.

At all prosecutors' offices which have branch offices away from headquarters, office space of branches usually doesn't satisfy minimal working requirements.

At only one prosecutor's office (Mostar), office space is being noted in the deed book as a property belonging to the prosecutor's office, thus value of the building is expressed in their balance sheet.

Both prosecutors' offices in Republika Srpska have contracts for right of use of office spaces with municipality, without obligations to pay rent. According to bookkeeping by-laws in Republika Srpska, these two prosecutor's offices are required to book office spaces used under long-term contracts, in out of balance sheet evidence.

Other prosecutor's offices are using office spaces which are not recorded in deed books as property belonging to prosecutors' offices, and are also not recorded in general ledger of the treasury or in balance sheets. These offices do not have special contracts for right of use of office spaces, and management of these prosecutor's offices is not aware who are owners of buildings according to deed books, and allegedly office spaces are properties belonging to the Government or to municipality.

Feasible risks:

- ☐ Termination of use of office spaces for some prosecutor's offices due to other government priorities.
- ☐ Termination of use of office spaces that may be subject to recovery of nationalized buildings.
- ☐ Prolonged (several months) work delays due to finding solution to problems with spaces.

Feasible risk management:

- ☑ Investigate the ownership of offices in deed books
- ☑ Make agreements with Government that would allow prosecutor's offices either

ownership or right of long-term use of office space.

- ☑ Make contracts with other budgetary entities that use same building.

2.2. Vehicles

All prosecutors' offices have passenger vehicles needed for work at their disposal. Number of vehicles varies depending on the size and on the need of a particular prosecutor's office, thus most of the offices have three vehicles each (Mostar, Široki Brijeg, East Sarajevo and Trebinje), and one office has two vehicles (Federal), while one office has one vehicle. The management of prosecutor's offices does not emphasize number of vehicles as a problem. However, there are differences in age of vehicles. Management of both RS based prosecutor's offices' deems vehicles in good condition, while it is visible from balance sheets of all Federation based prosecutor's offices that vehicles are considerably depreciated.

In one case (Goražde), prosecutor's office is using vehicle that is not its own property, and which is temporarily ceded by the local Government. Passenger vehicles at other offices are registered on prosecutor's offices title, and shown on their respective balance sheets.

Feasible risks:

- ☐ Termination of use of vehicles for some prosecutor's offices due to other priorities of the Government
- ☐ Improper management of travel orders for a vehicle and inability to service in a timely fashion
- ☐ Performance problems due to lack of vehicles

Feasible risk management:

- ☑ Make contract with Government, which would either give ownership on vehicles or a right of long-term use to the prosecutor's office.

2.3. Computer and audio-video equipment

Most of prosecutor's offices have inadequate number of computers on their disposal. Most of these computers have been depreciated financially and are technologically obsolete, which in turn slows down, and makes normal work more difficult. The condition of computer equipment is satisfying in only one prosecutor's office (Goražde), according to their management's assessment.

According to statements of officials in four prosecutor's offices (East Sarajevo, Trebinje, Mostar and Široki Brijeg), staff is trained to use computer equipment, while in two prosecutor's offices (Federal and Goražde) only a fraction of staff is trained to use computer equipment.

Audio-video equipment in five prosecutor's offices is inadequate, obsolete or broken, and in only one prosecutor's office (Široki Brijeg) condition of audio-video equipment is considered satisfying.

All prosecutors' offices have libraries, but condition of these libraries is not satisfying except in one office (Federal). Libraries are still being formed and are mostly equipped with old editions.

Feasible risks:
- ☐ Decrease of efficiency of prosecutor's offices due to lack of equipment or due to discarded equipment
- ☐ Loss of electronic databases

Feasible risk management:
- ☑ Make of mid-term plan for acquisition of new equipment
- ☑ Archiving data on external hard disc

3. SAFETY WHEN WORKING WITH CLIENTS

There is a lack of client access and movement control in three prosecutor's offices (Federal, Široki Brijeg, Goražde), while it exists in other three offices (East Sarajevo, Trebinje and Mostar). Walking directions do not exist in any of prosecutor's offices. None of the prosecutor's offices possesses metal detector, although in some of offices this device exists, however owned by other institutions.

Entrance and movement through the building is controlled by the court police in all of prosecutor's offices. In only two prosecutor's offices court police is controlling exclusively entrance in the prosecutor's office (Mostar and Trebinje), while in other offices court police controls entrance for all institutions residing in the building; thus prosecutor's offices don't have direct control on their entrances.

Only two prosecutor's offices (Mostar and Trebinje) have their own reception, while in other offices it is shared for all institutions in the building, but not controlled by the prosecutor's office.
All prosecutors' offices possess writing offices, but all of these have inadequate locations due to lack of space or inadequate space.

Feasible risks:
- ☐ Jeopardized physical security of prosecutor's office
- ☐ Waste of time due to entrance of parties which are not directly approved by a prosecutor's office
- ☐ Feasible notes of objections by clients in regards to dependence of prosecutor's offices on courts
- ☐ Lack of evidence about clients' movement

Feasible risk management:
- ☑ Agreement with courts which would regulate use of court police and reception in long term.
- ☑ Organizing prosecutor's office's private reception and security service.

4. PUBLIC RELATIONS

All prosecutors' offices usually communicate with public through means of occasional public media announcements.

Only one prosecutor's office (East Sarajevo) has a web site.
Neither prosecutor's office has an info-desk or display, nor publishes printed materials. Also, neither of prosecutor's offices has a special personnel in charge for public relations.

Feasible risks:
- ☐ Public is not aware of prosecutor's office role
- ☐ Unjustifiable bad public image on prosecutor's office role due to lack of relevant information

Feasible risk management:
- ☑ Hire additional personnel in charge for public relations
- ☑ Make web sites

5. PERSONNEL OCCUPANCY

All prosecutors' offices have By-laws on internal organization, which contain organizational schemes. Most of these By-laws haven't been updated since 2007. According to current systemizations, following is systemization scheme of personnel structure per prosecutor's office:

PROSECUTOR'S OFFICE	PROSECTURS	OTHER	TOTAL	RATIO
Federal Prosecutor's Office	10	12	22	1 : 1,2
District Prosecutor's Office East Sarajevo	10	22	32	1 : 2,2
District Prosecutor's Office Trebinje	5	10	15	1 : 2,0
Cantonal Prosecutor's Office of Hercegovačko-Neretvanski Canton Mostar	20	30	50	1 : 1,5
Cantonal Prosecutor's Office of Zapadno-Hercegovački Canton Š. Brijeg	4	7	11	1 : 1,75
Cantonal Prosecutor's Office of Bosansko-Podrinjski Canton Goražde	2	8	10	1 : 4,0

It can be seen from the table above that ratio of number of administrative workers per number of prosecutors has significant variations. Highest ratio is 4 administrative workers per one prosecutor (Goražde), while lowest is ratio of 1.2 administrative workers per one prosecutor (Federal).

Number of currently hired prosecutors in most of the offices does not match current scope of work. This ratio is satisfying in only one office (Mostar). In some of the prosecutor's offices, systemized positions of prosecutors have not been yet filled. Overview of filled positions as well as additional need for prosecutors is shown in following table.

PROSECUTOR'S OFFICE	SYSTEMIZED	FILLED	LACK IN SYSTEMIZATION
Federal Prosecutor's Office	10	10	2
District Prosecutor's Office East Sarajevo	10	9	2
District Prosecutor's Office Trebinje	5	5	3
Cantonal Prosecutor's Office of Hercegovačko-Neretvanski Canton Mostar	20	20	0
Cantonal Prosecutor's Office of Zapadno-Hercegovački Canton Š. Brijeg	4	4	1
Cantonal Prosecutor's Office of Bosansko-Podrinjski Canton Goražde	2	2	1

Current number of hired administrative workers with three prosecutor's offices does not match to systemization and to scope of work, while with three other offices all systemized positions have been filled. Overview of filled positions for systemized administrative workers' positions is shown in following table:

PROSECUTOR'S OFFICE	SYSTEMIZED	FILLED	NON FILLED
Federal Prosecutor's Office	12	11	1
District Prosecutor's Office East Sarajevo	22	22	0
District Prosecutor's Office Trebinje	10	10	0
Cantonal Prosecutor's Office of Hercegovačko-Neretvanski Canton Mostar	30	28	2
Cantonal Prosecutor's Office of Zapadno-Hercegovački Canton Š. Brijeg	7	7	0
Cantonal Prosecutor's Office of Bosansko-Podrinjski Canton Goražde	9	3	6

Demand for higher number of administrative staff would increase with increase of number of prosecutors.

It is important to emphasize that in two prosecutor's offices (East Sarajevo and Goražde) secretary position is not currently filled, although it is regulated by law.

At two prosecutor's offices (Široki Brijeg 2, Goražde 1), interns-volunteers are currently present, while at four prosecutor's offices (Federal, Mostar, East Sarajevo, Trebinje) this form of personnel engagement does not exist since it has not been foreseen in the budget.

Feasible risks:
- ☐ Increase of number of non-resolved cases

Feasible risk management:
- ☑ Request to HJPC for systemization change

6. COST EFFECTIVENESS AND EFFICIENCY

All prosecutors' offices keep evidence on number of received cases, as well as on the method of case resolutions during the year. Based on these evidences, following table is compiled:

Indicator	**East Sarajevo**	**Mostar**	**Trebinje**	**Široki Brijeg**	**Goražde**	**Federal**
Number of new cases	1452	1260	949	588	128	No first instance cases
Number of solved cases	1407	907	575	512	97	
Number of cases brought for investigation	597	755	309	404		
Number of prosecutions submitted	540	755	294	355	86	
Number of prosecutions confirmed	540	755	287	351	86	

Cost effectiveness indicators in public sector are measure of rational utilization of allocated resources. Prosecutor's offices do not have adopted indicators that would be regularly monitored. Based on financial reports and on the evidence on number of cases, following table shows some of possible cost effectiveness indicators calculated for each prosecutor's office:

Indicator	**East Sarajevo**	**Mostar**	**Trebinje**	**Široki Brijeg**	**Goražde**	**Federal**
Number of new cases per prosecutor	145,20	63,00	189,80	196,00	64,00	NA
Number of new cases per employee	45,37	26,25	63,23	58,80	25,00	NA
Equipment engaged per new case	94,41	395,61	89,28	361,47	992,00	NA
Fixed assets engaged per new case	112,46	1.157,51	89,28	361,47	992,00	NA
Gross salaries per new case	657,76	1.200,55	475,64	497,37	1.229,00	NA
Gross salaries per employee	30.808,87	31.514,56	30.092,60	29.245,40	31.466,00	43.822,
Current expenses per new case	898,40	247,18	690,11	188,65	427,00	NA
Current expenses per employee	42.079,84	6.488,58	43.660,80	11.092,90	10.942,00	2.855
Budget funds spent per new case	898,40	1.712,16	690,11	799,22	1.866,00	NA
Budget funds spent per prosecutor	130.447,84	107.866,15	130.982,24	156.647,00	119.454,00	126.923
Budget funds spent per employee	42.079,84	44.944,23	43.660,80	46.994,00	47.782,00	54.395

Table presented above shows significant differences between cost effectiveness indicators when comparing among prosecutor's offices:

- Number of cases per one prosecutor is highest in Široki Brijeg and in Trebinje, and it is almost as three times as high as in Mostar and in Goražde. Similar ratio is seen with number of employees per case. Naturally, this analysis does not take complexity of case in consideration.

- ‘Gross salaries per case’ indicator shows reverse situation compared to aforementioned indicator. The most cost effective prosecutor’s offices are offices in Široki Brijeg and in Trebinje, while prosecutor’s offices in Mostar and Goražde have three times as high wages per new case (compared to Š.Brijeg and Trebinje). Same ratio pertains to Budget funds spent per new case indicator.
- Significant oscillations exist with total use of funds per one prosecutor, while funds used per employee seem to be equable.
- Oscillations are significant with engaged equipment per new case indicator too. It can be derived that prosecutor’s offices in RS have much less equipment per case than prosecutor’s offices in Federation of Bosnia and Herzegovina.
- It is interesting to observe that there are significant oscillations with current expenses per case and per employee. That situations is reversed compared to aforementioned indicator, thus prosecutor’s offices u RS have significantly higher current expenses per new case and per employee than prosecutor’s offices in Federation of Bosnia and Herzegovina.
- Most equable indicator is annual gross salaries where oscillation between lowest (Široki Brijeg) and highest indicator (Mostar) amounts to 2269 KM. Federal prosecutor’s office has significantly higher annual salaries compared to other offices.

Efficiency indicators in public sector are measure of ratio between output and allocated resources. Prosecutor’s offices do not have regularly adopted indicators that would be frequently monitored. Based on financial reports and on evidence on number of cases, following table shows some of possible efficiency indicators calculated for each prosecutor’s office:

Indicator	**East Sarajevo**	**Mostar**	**Trebinje**	**Široki Brijeg**	**Goražde**	**Federal**
Number of solved cases per prosecutor	140,70	45,35	115,00	171,00	48,50	NA
Number of solved cases per employee	45,39	18,90	38,33	51,20	19,40	NA
Equipment engaged per solved case	97,43	549,58	147,36	415,13	1.310,00	NA
Fixed assets engaged per solved case	116,06	1.608,01	147,36	415,13	1.310,00	NA
Gross salaries per solved case	678,80	1.667,80	785,02	571,19	1.621,00	NA
Current expenses per solved case	927,13	343,39	1.138,98	216,66	564,00	NA
Budget funds spent per solved case	927,13	2.378,53	1.138,98	917,85	2.463,00	NA

Since there are no significant differences in relations between new and solved cases among prosecutor’s offices, all analysis pertaining to cost effectiveness indicators can be used for efficiency indicators. Prosecutor’s offices in Trebinje and Mostar are exceptions, since they had lower ratio between new and solved cases during the year of 2009.

Abovementioned analysis signifies that no account on cost effectiveness and efficiency indicators was taken into consideration during the systemization of positions in offices. Therefore, some prosecutor’s offices are in significantly better position than others when taking ratio between allocated funds to number of employees and to number of cases in consideration. Exception from this conclusion is average gross salaries per employee, where no significant oscillation may be observed.

Feasible risks:

- ☐ Adoption of systematizations and budgets which unjustifiably brings some of non-efficient and non-cost effective prosecutor's offices in favorable position.

Feasible risk management:

- ☑ HJPC should take some cost effectiveness and efficiency indicators in consideration when approving budget to prosecutor's offices.
- ☑ Prosecutor's offices should adopt cost effectiveness and efficiency indicators, and strategically reduce them to objective measure.

7. INTERNAL CONTROL SYSTEMS AND INTERNAL AUDIT

As per laws of both entities and since prosecutor's office are being budgetary users, prosecutor's offices are required to regulate internal control systems in a writing.
As per article 62 of the Law on budget in Federation of Bosnia and Herzegovina, budgetary users are required to establish system of internal control in agreement with international standards, in order to perform activities within scope of their elementary function. Ministry of finances makes instructions for establishment and maintenance of internal control system, while budgetary users are required to make By-laws on internal controls. Internal control system insures establishment of organization, of policies and procedures which are being used to produce intended results in Governmental programs; that the resources used in those programs are in compliance with goals set by particular organization; that programs are secured against losses, fraud and bad management, and that dependable and timely information which are being used for reporting, supporting and bringing decisions is at disposal.
Similarly, according to article 69 of the Law on the budgetary system in Republika Srpska (Official Gazette of Republika Srpska, numbers 54/08 and 126/08), budgetary users are required to form internal audit and make By-laws on internal control activities, which are regulating procedures and actions of creating liabilities, book evidencing and of use of funds. Ministry of finances makes instructions for establishment and maintenance of internal control system, while budgetary users are required to make By-laws on internal controls. Article 17 of Law on Treasury in Republika Srpska (Official Gazette of RS, numbers 16/05 and 92/09), regulated the obligation of budgetary users to establish and maintain control systems on approved budgets, approved financial plans and operational budgets, budget funds and budget expenses.

We have determined that five prosecutor's offices have adopted By-laws on internal control, while one prosecutor's office (Goražde) does not have such By-laws. However, even with offices that have such regulations, By-laws are not adjusted to effective laws and directions given by respective Ministries of finances.

By article 2 of Law on internal audit in Public Sector in Republika Srpska (Official Gazette of Republika Srpska, number 17/08), Internal audit is defined as independent, objective assurance and consulting activity aiming to add value and enhance conduct of the organization, and to help organization to achieve its goals by providing systematic, disciplined approach to the assessment and improvement of risk management efficiency, to approach to controlling and to management processes. As per article 7 of the same Law, each organization is obligated to establish internal audit unit or internal audit department, if it meets criteria defined by Central Harmonization Unit of Ministry of finances of RS, taking in

consideration criteria such as: total annual budget, number of employees, complexity of transactions, and level of the risk involved. Since District prosecutor's offices in East Sarajevo and Trebinje don't meet defined criteria, these offices are not obligated to establish internal audit. However, according to regulations set by article 11 of the Law, Prosecutor's office's activities are supervised and controlled by internal audit unit of Ministry of Justice in Republika Srpska.

As per article 63 of the Law on Budget in Federation of Bosnia and Herzegovina, Internal Audit is budgetary user's body, which independently and objectively: affirms achievement of completed results and functions of budgetary users, alerts on irregularities and discrepancies with legal and other regulations which govern their conduct, and suggests measures for elimination of such discrepancies and irregularities, as well as measures for improvements of budgetary users' business. According to the same article, Internal audit of the budgetary users is being organized by the manager of the budgetary user, and Government should establish, by the mean of special act, for which budgetary users internal audit is done by the ministries of financing.

Neither of prosecutor's offices in Federation of Bosnia and Herzegovina has organized internal audit, and people in charge in prosecutor's offices are not aware if canton Government has classified them in group of budgetary users for whom the Government makes internal audit. Some prosecutor's offices have provisions in their internal documentations that are not in accordance with the law. In one case (Široki Brijeg) it is being indicated that internal audit will be performed by the principal prosecutor, and in the other case that internal audit will be performed by the court (Federal).

Feasible risks:

- ☐ Loss, mistake or fraud due to inappropriate system of internal control
- ☐ Negative appraisal by the state audit
- ☐ Legal sanctions due to impiety of the Law on internal audit

Feasible risk management:

- ☑ Prosecutor's offices should update By-laws on system of internal controls using "Practical guide for efficient internal control in BiH institutions" - "Praktični vodič za efikasnu internu kontrolu u institucijama BiH" (Kako donijeti Pravilnik o internoj kontroli) published by Ministry of finances and treasury of BiH [1].
- ☑ Prosecutor's offices in Federation of Bosnia and Herzegovina should check if Government has classified them as budgetary users for which the Government performs internal audit, and to form internal audit as per need.
- ☑ Documents that regulate work of internal audit should be made in accordance with law.

8. FLOW OF FINANCIAL DOCUMENTATION

8.1. By-laws on movement and approval of financial documentation.

As per article 4 of the Decree on budgetary accounting in Federation of Bosnia and Herzegovina Uredbe o računovodstvu Budžeta u Federaciji Bosne i Hercegovine (Official Gazette of Federation of Bosnia and Herzegovina, number 11/07), budgetary users are maintaining budget books in accordance to provisions of the Law on accounting and audit in

[1] www.trezorbih.gov.ba

Federation of Bosnia and Herzegovina. As per article 13 of the Law on accounting and audit in Federation of Bosnia and Herzegovina (Official Gazette of Federation of Bosnia and Herzegovina number 83/2009), legal entities are mandatory obligated to pass the act on organization of accounting information system which determines: admission, formation, movement, filing and keeping of documentation, as well as procedures, methods and techniques for business bookkeeping, format of books, components of business books, relative flows for entry of particular book entries, updating business books, methods for safekeeping business books, amortization, methods and terms for financial reporting, as well as other procedures and methods.
As per article 3 item 4 of the Law on accounting and audit of Republika Srpska (Official Gazette of Republika Srpska, number 36/09), provisions of this Law are applicable to budgetary users of the Republika Srpska's budget, municipality and city budgets and budget funds. By regulations of article 6 of the Law, obligation of legal entities to organize accounting and bookkeeping system through their general acts is being prescribed.

We determined that five prosecutor's offices have adopted By-laws which regulate movement and approval of financial documentation, while only one office (Goražde) doesn't have such By-law. However, even with prosecutor's offices that have such regulations, By-laws are not in accordance with current laws and directions prescribed by Ministries of finances.

Feasible risks:
- ☐ Weakened internal control system
- ☐ Legal sanctions in case of audit by Tax authorities due to impiety of the Law on accounting

Feasible risk management:
- ☑ Make By-laws on movement of documentation prescribed by the Law on accounting or adjust existing By-laws with new Law and relevant directions.

8.2. Liquidation and approval of accounts and other documentation

As per article 15 of the Law on accounting and audit of Federation of Bosnia and Herzegovina, entity entitled to represent a legal entity or the entity to which the authorization has been transferred, guarantees with its signature that bookkeeping document is correct. As per article 17 of that Law, before the book entry, document has to be controlled for formal, essential and mathematical integrity and verified by accredited entities within a legal entity.
Similarly, as per article 8 item 3 of the Law on accounting and audit of Republika Srpska, entities entitled for assembling and controlling of bookkeeping documents certify by their signature that bookkeeping document is complete, authentic, mathematically correct and that it reflects essence of business event to which it pertains. According to regulations set by item 4 of the aforementioned article, entity in charge within the legal entity is obligated to verify accuracy and integrity of the document by its signature, before inputting data in bookkeeping documents and in business books.

In most of prosecutor's offices flow of documentation is essentially organized in the following way:
- Bookkeeping documents are first being evidenced in the protocol book, and then delivered to the treasurer through the internal delivery book;

- The cashier performs formal, essential and mathematical control of the received bookkeeping documents. The suppliers' invoices are noted in the book entry account, while invoices from court experts are entered in a separate book;
- Checked and evidenced bookkeeping document is being delivered to the principal prosecutor, who verifies its integrity by means of his signature;
- Checked and verified bookkeeping document is being delivered for bookkeeping.

In some of prosecutor's offices, bookkeeping documents are being delivered to the secretary from the protocol (Federal) or to the register (Goražde) since these prosecutor's offices don't have treasurer. In one case (Široki Brijeg) documents are delivered directly from protocol to the principal prosecutor, who liquidates and approves document. With one prosecutor's office (Federal), document can be approved by the secretary as well as by the principal prosecutor.

Feasible risks:
- ☐ Weakened system of internal controls
- ☐ Legal sanctions in case of audit by Tax authorities due to impiety of the Law on accounting
- ☐ Principal prosecutor wastes time on mechanical and formal control of documents' integrity.

Feasible risk management:
- ☑ Appoint a person for liquidating financial documentation in accordance to the Law on accounting or adjust existing By-laws with the Law and relevant legal directives
- ☑ Separate liquidating and approval functions; principal prosecutor should not be liquidator of financial documentation.

8.3. Delivery of documents for bookkeeping

In both prosecutors' offices in Republika Srpska, approved documentation is being delivered to the manager of material financial accounting who makes general ledger entries on business changes per received bookkeeping documents. He checks if there are enough funds to pay for received invoices and court experts invoices, and if so, gives payment orders – order form number 2. Paid invoices, together with payment orders, are put in appropriate file folder. Invoices not paid due to lack of funds on the budget position are being kept in separate folder, until liabilities are paid for these invoices.

Delivery of documents for book entry varies from one to another of Federation of Bosnia and Herzegovina based prosecutor's offices:

First variation (Federal): Document, together with the payment order is being delivered for bookkeeping and payment to accounting department of another budgetary user (court), which performs accounting tasks for prosecutor's office as well.

Second variation (Mostar): Invoice, together with payment order is delivered to Ministry of Justice, which in turn passes it to Ministry of Finances for evidencing in the treasury's general ledger and for payment. Ministry of Finances signs a copy of registered orders and returns it to the prosecutor's office. This represents the evidence that document has been entered into the general ledger of the treasury. However, prosecutor's office does not possess any evidence that documentation has been delivered to the Ministry of Justice. Also, there is no regulation which explains the need for Ministry of Justice to be involved in the delivery of documentation for bookkeeping in the general ledger of the treasury.

Third variation (Široki Brijeg): Payment order, together with invoice is being delivered to the Ministry of Finances for payment and evidencing in treasury's general ledger. Ministry of

Finances returns signed copy of entered orders to the prosecutor, which represents the evidence that the document has been entered into the treasury's general ledger.
Fourth variation (Goražde): Approved document is being put into book entry account by the accountant (employee of the court). Accountant files the order, which is being signed by him and the principal prosecutor, to the treasury. This order, together with the received invoice is being delivered to Cantonal Ministry of Justice, which passes it to the Cantonal Ministry of Finances for payment and evidencing in the general ledger of the treasury. Ministry of Finances returns signed copy of entered orders to the prosecutor's office, which represents the evidence that the document has been entered in the treasury's general ledger. However, prosecutor's office does not possess any evidence that documents have been delivered to the Ministry of Justice. Also, there is no regulation which explains the need for Ministry of Justice to be involved in delivery of documentation for bookkeeping in the general ledger of the treasury.

Feasible risks:
- ☐ Loss of documentation
- ☐ Unjustifiable dependency on Ministry of Justice and on Ministry of Finances
- ☐ Irregular payment (or non-payment) of liabilities

Feasible risk management:
- ☑ Ensure conditions for direct entry in the general ledger by the prosecutor's office
- ☑ Entrust maintenance of business books to specialized and registered agency

9. ACCOUNTING EVIDENCES

9.1. General ledger maintenance

Although regulations are virtually identical, practical methods of maintaining general ledger at prosecutor's offices in Republika Srpska are significantly different than methods of maintaining general ledger at prosecutor's offices in Federation, and are significantly more advanced due to the fact prosecutor's offices in Republika Srpska have direct access to treasury's general ledger.
According to laws in Republika Srpska, general ledger of the treasury is a system for evidencing all financial transactions contained in the Republika Srpska budget system; municipalities, cities and funds i.e. of incomes and expenses, assets, sources of funds and sources of liabilities in accordance with regulated account plan and with level of relevant classification. Treasury's general ledger, together with unique account of the treasury, represents basic system for public expenses management. According to article 16 item 6 of the Law on Treasury, budgetary users are responsible for accuracy of bookkeeping documents based on which data was delivered to treasury or which were entered in sub ledger or general ledger of treasury.

In both prosecutors' offices in Republika Srpska, it is a Manager of accounting department who makes book entries in the general ledger. He checks if there are sufficient funds for paying received invoices and invoices submitted by court experts, and if affirmative, gives payment order – form number 2. Paid invoices, together with payment orders, are kept in the appropriate file folder.

According to article 55 of the Law on Federation of Bosnia and Herzegovina budget, Ministers and managers of budgetary organs and bodies are responsible for accounting, internal control and supervision of their respective ministries including budgetary users and consumer units, i.e. budgetary bodies and organs that represent a part of their competence. In that sense, principal prosecutor is liable for accounting department of prosecutor's office.
According to article 6 of Decree on budgetary accounting in Federation of Bosnia and Herzegovina (Uredbe o računovodstvu Budžeta u Federaciji Bosne i Hercegovine), budgetary users are maintaining budget books per double bookkeeping principle, and per account plan prescribed by Analytical accounting plan for budget and budgetary users. As per article 12 of the Decree, budgetary accounting books are: general ledger (income and revenue ledger, cost and expenses, assets book, liabilities and capital) and sub ledgers.

In Federation, there are three cases (Mostar, Široki Brijeg and Goražde) where general ledger is maintained by ministry of finances, which is regulated by cantonal directions. In one case (Federal), general ledger of prosecutor's office is maintained by accountancy of another budgetary user (court), as per special agreement approved by the Government.

Feasible risks:
- ☐ Principal prosecutor liable for wrong entry in general ledger, although prosecutor's office does not have control of entry process
- ☐ Unjustifiable dependency on Ministry of finances
- ☐ Irregular payment (or non-payment) of liabilities
- ☐ Lack of information on performance of the budget

Feasible risk management:
- ☑ Ensure conditions for direct entry in general ledger by the prosecutor's office
- ☑ Entrust maintenance of business books to specialized and registered agency

9.2. Sub-ledgers

According to the article 12 item 2 of the Decree on budgetary accounting in Federation of Bosnia and Herzegovina (Uredbe o računovodstvu Budžeta u Federaciji Bosne i Hercegovine), sub-ledgers are ledgers for data entry in the Treasury and in sub-ledgers maintained by budgetary users.

Sub-ledgers for Treasury entries are: orders book, liabilities book, payment book, and budgetary beneficiary's general ledger module, as sub-ledger for the treasury's general ledger. Compulsory sub-ledgers from item 2 of this article maintained by budgetary users are: book of entry accounts, book of output accounts, inventory book, list (book) of inventory, list (book) of capital assets, liabilities book, cashier book, wages registry and book of transactions' accounts statements.
As per article 27 of the By-laws on accounting policy for budgetary users of Republika Srpska, compulsory sub-ledgers are: book of entry accounts, book of output accounts, assets book, cashier's book, inventory book, registry of expenses and registry of salaries.

As per the statements of the liable personnel from prosecutor's offices, prescribed sub-ledgers are maintained in all offices.

9.3. Person in charge for maintaining business books

Accounting Law in both entities prescribes special conditions for persons who are entitled to maintain business books.

As per article 12 of the Law on accounting and audit in Republika Srpska, legal entity and business entity have to, through means of aforementioned law, determine level of education, working experience, and other conditions for person who maintains business books and who prepares financial reports. Maintenance of business books and preparation of financial reports may be entrusted to another legal entity, which is registered for offering bookkeeping and accounting services, which employs qualified personnel to whom maintenance of business books and preparation of financial reports is entrusted, and who meet other conditions regulated by the Law and general regulations set by the legal entity.

At both prosecutor's offices u Republika Srpska, bookkeeping evidence is maintained within Prosecutor's office, and persons who are in charge for maintaining books and for preparation of financial reports, are economists with university degrees and have certified public accountant title, thus they can maintain business books of the prosecutor's office and verify financial reports by putting their signatures on them.

As per article 24 of Law on accounting and audit of Federation of Bosnia and Herzegovina: „A person who is in charge of business books maintenance, for preparation of financial reports and who is cosigner on financial reports, according to article 37 of this Law, is subject to general provisions by the legal entity who prescribes conditions that person has to meet: education level, work experience and other, as well as person's responsibility for business books to be updated, tidy and truthful. Maintenance of business books may be entrusted by virtue of agreement, with adequate compensation, to another legal entity that is registered for offering accounting services and which has employed personnel to whom maintenance of business books is entrusted, with condition that service provider has to ensure that documents are archived and safeguarded in their premises."

According to the article 17 of the Decree on budget accounting in Federation of Bosnia and Herzegovina (Uredbe o računovodstvu Budžeta u Federaciji Bosne i Hercegovine), it is prescribed that budgetary users may entrust bookkeeping through an agreement, to authorized expert organizations, with condition that responsibility of management of budgetary users for overall accounting is not diminished.

At three prosecutor's offices in Federation of Bosnia and Herzegovina (Mostar, Široki Brijeg and Goražde), where general ledger is maintained by ministries of finances, there is no special regulation which governs relationships, rights and responsibilities between prosecutor's office and ministry of finances in regards to general book maintenance. However, this manner of conduct has been prescribed by cantonal directives. Although accounting system has been regulated by cantonal directions from 2007, it should be emphasized that these directions are not in accordance with the new Law on accounting and audit in Federation of Bosnia and Herzegovina. Besides, problem of the person who signs on financial reports is not solved by cantonal directives since cantonal ministry of finances does not sign on these financial statements.

At one prosecutor's office in Federation of Bosnia and Herzegovina (Federal) business books are maintained by court's chief accountant. Although this person has CPA status, according to this law this person should not maintain business books of prosecutor's office since court is not registered for providing of accounting services (which is a prerequisite by the Law on accounting).

Feasible risks:

- ☐ Principal prosecutor eligible for wrong entry in general ledger, although prosecutor's office doesn't have control on entries
- ☐ Legal sanctions in case of audit by Tax authorities due to impiety of the Law on accounting

Feasible risk management:

- ☑ Ensure conditions for direct entry in the general ledger by prosecutor's office
- ☑ Entrust maintenance of business books to specialized and registered agency

9.4. Availability of reports from the general ledger

Availability of reports from the general ledger in both Republika Srpska based prosecutor's offices is maximal. Considering the fact that bookkeeping is organized within prosecutor's offices, where accounting documents and books are kept, and where prosecutor's office is directly connected with treasury's accounting system, availability of the data from the general ledger is executed immediately and at all times. Therefore, prosecutor's office is capable to utilize information on cumulative utilization, i.e. on amount of available funds from particular budgetary positions.

Availability of reports from the general ledger with prosecutors' offices in Federation of Bosnia and Herzegovina is significantly limited. Since prosecutor's offices do not perform entries in general ledger, and since they do not have access to information system of treasury's general ledger, they have only printed reports on their disposal. Those reports are being delivered by ministry of finances (or in one case by court which has access to general ledger). Each of Federation of Bosnia and Herzegovina based prosecutor's offices has different level of available information from the general ledger:
At three prosecutor's offices (Mostar, Široki Brijeg and Goražde), Ministry of finances is delivering monthly payment reports only to a prosecutor's office. Only when prosecutor's office consolidates monthly register with entry account book, they come to information on payment of their liabilities. This is rather complicated and unnecessary procedure, since data on liabilities and payments can be extrapolated directly from the general ledger.
In one case (Federal) court's accounting delivers monthly and quarterly reports on budget expenditure to prosecutor's office. Besides, another report, named "Report-analysis of availability of funds", is being delivered daily (or, when changes occur), which is giving permanent insight into state of available funds. According to prosecutor's office secretary's statement, prosecutor's office also receives other reports as per need.

Besides aforementioned reports, the only other report delivered to prosecutor's offices is annual balance book for making annual financial statements. That way, prosecutor's office in Federation of Bosnia and Herzegovina are deprived for many information and reports which can be extrapolated from the general ledger, especially for information on cumulative use of funds from particular budget lines.

Feasible risks:

- ☐ Fund not spent from some budget line due to lack of accounting information
- ☐ Non paid liabilities or late payments

Feasible risk management:

- ☑ Provide conditions for direct entries in the general ledger by the prosecutor's office
- ☑ Entrust maintenance of business books to specialized and registered agency
- ☑ Demand regular delivery of all available information from the general ledger from the ministry of finances

10. BUDGETING

10.1. Document of the frame budget 2011-2013

According to article 9 of the Law on budgets in Federation of Bosnia and Herzegovina, budget management and making of budget is based upon the Document of frame budget, which covers minimum of one fiscal year and two following fiscal years. Three year planning of the budget becomes an obligation for all budgetary users and users of out-budget funds.

The Document of frame budget is based on directions of economic and fiscal policy for three years period, which is brought by the Federation of Bosnia and Herzegovina Government per suggestion of Federal Ministry of finances, which is obligated to deliver these directions in May of the current year at the latest. As per article 11 of the same Law, based on these directions, minister of finances is obligated to issue and act on methods and elements of making a budgetary plan to budgetary users. As per article 13 of the same law, a budgetary user makes draft plan of the development program with notes, which is being suggested to appropriate ministry, i.e. state organ in charge for that budgetary user. Budgetary user also makes draft plan for acquisition of fixed assets, which has to be harmonized with draft plan of development program and suggests it to the appropriate ministry, i.e. state organ in charge for a budgetary user. As per article 14 of the same law, Minister of Finances considers budgetary users' financial plans and programs and suggests necessary changes of plans. Government considers and approves Document of frame budget by June 30th of the current year, together with mid-term expenditure frame for three years period.

As per article 15 of the budgetary system of Republika Srpska, preparation and making of the budget is based on Document of budget frame, which mandatory contains anticipated changes in revenues and expenses for budgetary year and following two fiscal years; proposition for insuring the source of funds for increased expenditures and proposition for insuring the source of funds for decrease of budgetary funds.

The Document of frame budget is approved by the Government by June 30 of the current year, for following fiscal year; article 19 of the Law.

As per article 22 of the Law, in accordance with the Document of frame budget, Ministry of finances is delivering guidelines to budgetary users on methods and elements of making draft budgets.

Minister of finances considers application by budgetary beneficiary, bearing in mind goals regarding income and expenditure and data and explanations set in application for budget.

In accordance to aforementioned regulations, ministries of finances have delivered to all prosecutors' offices: "Instructions for budgetary users - number 1", which pertains to the Document of the frame budget for period 2011-2013. These instructions have been delivered to Federation of Bosnia and Herzegovina based prosecutor's offices in March or April 2010, while RS based offices received instructions in July 2010.

Ministry of finances in Republika Srpska have delivered directions for making budgetary application for 2011-2013 with quantified limitations set by the Document of frame budget for 2011 to prosecutor's offices. Bothe Republika Srpska based prosecutor's offices have concluded that limited funds set by the Document of frame budget are not sufficient for their normal scope of work. Starting from that conclusion, aside from budgetary application made in scope of given limitations, another application has been made – with real need for finances. High judicial and prosecutorial council, based on its competence defined by the article 17 of the Law on high judicial and prosecutorial council (Official Gazette of Bosnia and Herzegovina, number 25/04, 93/05, 48/07 and 15/08) has announced to prosecutor's offices that it has no objections on their requirement for real needs for 2011. Prosecutor's offices have delivered two budgetary applications for 2011-2013 to Ministry of finances and Ministry of justice, as follows:

- Budgetary application based on the directions set by Ministry of finances, and
- Budgetary application based on realistic needs.

Prosecutor's offices have filled up following table as per instructions: (for prosecutor's offices from Republika Srpska amounts set per suggestion by ministry of finances have been used):

Prosecutor's office	Account	**Account name**	**Execution 2009**	**Estimate 2010**	**2011**	**2012**	**2013**
Federal prosecutor's office	**610000**	**Current expenses**	**1.142.306**	**1.166.682**	**1.272.418**	**1.272.418**	**1.272.418**
	611100	Gross salaries and wages	985.723	992.894	1.090.383	1.090.383	1.090.383
	612000	Staff expenses	96.628	98.399	106.646	106.646	106.646
	613000	Material and service expenses	59.955	75.389	75.389	75.389	75.389
	821000	**Capital expenses**	**1.523**	**20.000**	**40.000**	**20.000**	**20.000**
		TOTAL	**1.143.829**	**1.186.682**	**1.312.418**	**1.292.418**	**1.292.418**
		Personnel	21	21	21	21	21
District prosecutor's office East Sarajevo	**610000**	**Current expenses**	**1.304.475**	**1.154.000**	**1.154.000**	**1.204.000**	**1.204.000**
	611, 612	Gross salaries and wages	1.021.051	964.000	964.000	1.005.980	1.005.980
	613000	Material and service expenses	283.424	190.000	190.000	198.020	198.020
	821000	Capital expenses	**0**	**0**	**0**	**0**	
		TOTAL	**1.304.475**	**1.154.000**	**1.154.000**	**1.204.000**	**1.204.000**
		Personnel	31	35	38	38	38
District prosecutor' s office Trebinje	**610000**	**Current expenses**	643.000	556.000	556.000	556.000	556.000
	611 i 612	Gross salaries and wages	492.000	424.000	424.000	424.000	424.000
	613000	Material and service expenses	151.000	132.000	132.000	132.000	132.000
	820000	Capital expenses	0	15.000	15.000	15.000	15.000

		TOTAL	**643.000**	**571.000**	**571.000**	**571.000**	**571.000**
		Personnel	15	17	17	17	17
Cantonal prosecutor's office Mostar	**610000**	**Current expenses**	**2.157.691**	**2.127.200**	**2.127.200**	**2.127.200**	**2.127.200**
	611100	Gross salaries and wages	1.687.027	1.699.000	1.699.000	1.699.000	1.699.000
	612000	Employer's contributions	158.836	165.000	165.000	165.000	165.000
	613000	Material and service expenses	311.828	263.200	263.200	263.200	263.200
	821000	Capital expenses	**49.914**	**30.000**	**30.000**	**30.000**	**30.000**
		TOTAL	**2.207.605**	**2.157.200**	**2.157.200**	**2.157.200**	**2.157.200**
		Personnel	50	50	51	51	51
Cantonal prosecutor's office Široki Brijeg		**Current expenses**	**479.036**	**542.694**	**550.834**	**663.135**	**673.082**
	611000	Gross salaries and wages	328.000	405.694	411.779	491.537	498.910
	612000	Employer's contributions	30.110	37.000	37.555	38.126	38.698
	613000	Material and service expenses	120.926	100.000	101.500	133.472	135.474
	821000	Capital expenses	0	5.000	5.075	5.151	5.228
		TOTAL	**479.036**	**547.694**	**555.909**	**668.286**	**678.310**
		Personnel	12	12	15	15	15
Cantonal prosecutor's office Goražde	610000	**Current expenses**	274.802	254.135	279.548	307.502	338.253
	611100	Gross salaries and wages	167.683	167.683	184.451	202.896	223.186
	612000	Employer's contributions	16.452	16.452	18.097	19.906	21.897
	613000	Material and service expenses	90.667	70.000	77.000	84.700	93.170
	821000	Capital expenses	2.000	2.000	4.000	6.000	8.000
		TOTAL	**276.802**	**256.135**	**283.548**	**313.502**	**346.253**
		Personnel	5	5	5	5	5

Neither prosecutor's office has filled tables per individual development program, as it was requested by instructions, but it is shown collectively, since prosecutor's offices don't have activities divided per development programs. When prosecutor's offices adopt strategies and define strategic programs, they will mandatory have to take into account that these programs are quantified individually in following Document of frame budget.

Feasible risks:

- ☐ Approved funds lesser than ones applied for, which immediately affects prosecutor's office's efficiency
- ☐ Prosecutor's office are permanently being neglected in the budget voting process on the government level and don't have influence through voting process
- ☐ Lack of data sorted per development programs may be an excuse for denial of funds applied for.

Feasible risk management:

- ☑ Prosecutor's office, HJPC and Ministries of justice should participate in coordinated manner through the process of budget voting on the government level
- ☑ Upon making of strategy, prosecutor's office should develop the data per particular programs within the frame budget document.

10.2. Budgetary request for 2011

As per article 15 of the Law on budget, Ministry of finances is obligated to pass directions to budgetary users, in view of preparation of budget application, terms for budget application

and limitations of expenditures, at latest by July 1st of the current year for the following year. Guidelines should contain basic content of the Document of frame budget and indicative threshold of expenditures for following fiscal year, devised from the Document of frame budget for each budgetary user. Budgetary users are obligated to deliver their applications to ministry of finances by August 1st following year.
In the sense of aforementioned rule, on August 23 2010 cantonal ministry of finances have delivered to prosecutor's offices an "Instruction for budgetary users – number 2", which is related to application for budget for 2011. Prosecutor's offices have filled out this table as follows:

Name	Current expenses	Capital expenses	TOTAL
Federal	1.392.731	65.111	**1.457.842**
East Sarajevo	1.635.959	81.797	**1.717.756**
Trebinje	740.460	15.000	**755.460**
Mostar	2.258.389	108.000	**2.366.389**
Goražde	257.066	12.853	**269.919**
Široki Brijeg	Application not delivered		

All budget applications have gotten support of High judicial and prosecutorial council of Bosnia and Herzegovina within its authority defined by article 17 of the Law on HJPC.

Feasible risks:
- ☐ Approved funds lesser than ones applied for, which immediately affects prosecutor's office's efficiency
- ☐ Prosecutor's office are permanently being neglected in the budget voting process on the government level and don't have influence through voting process

Feasible risk management:
- ☑ Prosecutor's office, HJPC and Ministries of justice should participate in coordinated manner through the process of budget voting on the government level

11. EXECUTION OF THE BUDGET

11.1. Notification on approved budget funds

Budgetary users are responsible for lawful, rational, efficient and cost effective use of budgetary funds. As per article 27 of the Law on budget in Federation of Bosnia and Herzegovina, transactions of all revenues, incomes, expenses and costs are being evidenced in the treasury general ledger. According to article 28 of the same law, after budget is voted, Ministry of finances is obligated to advise budgetary users about approved budget funds and about time line of allocation of budget funds.
As per the law on execution of budget in Republika Srpska, Ministry of finances is obligated to report to users on amount of funds which will be given on their disposal.

All aforementioned prosecutors' offices have been notified by appropriate ministries of finances on approved budget funds as well as on the timeline for allocation of budget funds.

11.2. Monthly allocations of approved budget

As per article 28 of the Law on budget in Federation of Bosnia and Herzegovina, budget is being executed based on monthly allocation plan for available budget funds, which is being approved by the minister of finances, based on cash flow which is being used to make projections of all inflows and outflows from treasury account. In accordance to the article 29 of the same Law, based on allocation of budgetary funds and on instructions by ministry of finances, budgetary users prepare and submit propositions of operational budgets to the ministry of finances. In operational budgets' proposals, expenses for each month should be taken in consideration. Ministry of finances should notify budgetary users on approved operational budgets.
Law on budget of Republika Srpska prescribes method of budget execution for each year. According to provisions of that law, Ministry of finances makes quarterly plan of expenses. Based on estimate of budgetary funds inflow, Ministry of finances is obligated to report to budgetary users on amount of budgetary funds that will be put to their disposal through quarterly financial plan, at latest ten days before beginning of the quarter.

It may be stated for all prosecutors' offices in Federation of Bosnia and Herzegovina that they didn't have chance to submit their monthly (operational) plans proposals to the ministry. Operational (monthly) plans have been established by amenable ministries, dividing of approved budget on positions by number 12.
Within a frame of approved operational budget, prosecutor's office has issued requests for payment as described in heading 8.

11.3. Non-used appropriations and likelihood of restructure of approved expenditures

In Republika Srpska, redistribution of funds within one budgetary beneficiary between current and capital expenses is made based on the decision made by the Government of Republika Srpska. Based on decision made by amenable ministry redistribution is made within available frame of current and capital expenses. However, redistribution of funds from material expenses cannot be done to wages' expenses, as well as redistribution for co-financing projects for which Government has signed contract.
Both Republika Srpska based prosecutor's offices are regularly following state of available funds per each budgetary position and, when possible, deliver request for reallocation of funds from one budgetary position to another within available expense's frame to Ministry of finance.

As per article 32 of the Law on budget in Federation of Bosnia and Herzegovina, unused appropriations (approved yet unused amounts for some budgetary code) and loadings are expiring on January 31 of following fiscal year (excluding appropriations for capital project financing). Due to aforementioned method of general ledger entries and due to lack of information from the general ledger, most of the prosecutor's offices in Federation of Bosnia and Herzegovina were not in position to follow utilization of individual budgetary lines through the year, thus they we not aware of unused appropriations. For the same reasons prosecutor's office couldn't give proposals for restructure of expenses within approved frame of funds for a prosecutor's office, up to 10% of total of approved expenses as per article 33 of the same Law. As a result of aforementioned issues some of the liabilities to court expenses were not paid.

Feasible risks:

- ☐ Unused funds on individual budgetary lines due to lack of information on execution of budget and due to failure to allocate budget to rebalance.

Feasible risk management:

- ☑ Next year, prosecutor's offices should request appropriate information from the general ledger in order to be able to timely give proposals for restructure of approved expenses and to stop appearance of unused appropriations.
- ☑ Organize direct data input in the general ledger and direct access to reports from general ledger.

12. FINANCIAL REPORTING

12.1. Legal frame

Business book maintenance and financial reporting in Republika Srpska are defined by provisions of the Law on budgetary system of Republika Srpska, Law on treasury, Law on accounting and audit of Republika Srpska, by-laws on accounting policy for budgetary users in Republika Srpska and International accounting standards for public sector.

Based on article 62 of the Law on budgetary system of Republika Srpska, minister of finances is bringing the guidelines on making of annual reports for budgetary users. Guidelines prescribe bookkeeping of specific business events and method of preparation of annual reports for budgetary users.

Treasury, based on the general ledger, completes financial reports and delivers them to budgetary users. Format of financial reports prepared by the Treasury is not identical to the format of financial reports that are mandatory being delivered to the Agency for brokerage, informational and financial services (APIF). Based on the data shown in book balances and on financial reports gotten from the Treasury, prosecutor's office prepares financial reports on prescribed forms and delivers those to APIF within required time frame.

Prosecutor's office have prepared and delivered to APIF financial reports for 2009, on following forms:

- Balance sheet as of December 31 2009,
- Income statement for period January 01 2009 to December 31 2009,
- Cash flow statement for period January 01 2009 to December 31 2009,
- Annual report on budget execution, for period January 01 2009 to December 31 2009,
- Report on capital expenses and financing, for period January 01 2009 to December 31 2009, and
- Special data on wages and number of employees, for period January 01 2009 to December 31 2009.

Content and method of financial reporting, and prescription for preparation of periodical and annual financial reports on execution of budget for budgetary users is regulated by the By-laws on financial reporting and annual accounting of the Budget in Federation of Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina", number 17/05). Article 23 of the Decree on Budget accounting in Federation of Bosnia and Herzegovina (Uredbe o računovodstvu Budžeta u Federaciji Bosne i Hercegovine)(Official Gazette of Federation of Bosnia and Herzegovina, number 11/07) establishes that budgetary users are obligated to prepare following financial reports: balance sheet, revenues and expenditures account,

statement on capital expenditures and capital financing, annual report of budget execution, statements on other financial data and special data on wages and number of employees.

As per point 9 of "Clarifications on preparation and submission of financial reports for period I – XII 2009", which was brought by the Ministry of finance of Federation of Bosnia and Herzegovina (Number: 03-14-222/10 from January 15 2010) - tributaries to preparing and submission of annual reports are also legal entities which maintain bookkeeping per budget account plan and they submit following financial statements:
- Revenues and expenditures account for period January 01 2009 to December 31 2009;
- Balance sheet for period January 01 2009 to December 31 2009;
- Statement on capital expenditures and capital financing for period January 01 2009 to December 31 2009;

12.2. Prosecutor's office book balance on December 31 2009

Prosecutor's offices in Republika Srpska have direct access to the general ledger, thus they are capable to print out complete book balance, which is a foundation for preparing prosecutor's office's financial statements. Financial reports of both Republika Srpska based prosecutor's offices (primary balance sheet and income statement) are harmonized with the balance book.

Situation is more complex with Federation based prosecutor's offices since they do not have direct access to treasury's general ledger. Therefore, appropriate ministries are delivering balance Book to prosecutor's offices on December 31 2009 for preparation of financial statements. We have spotted a number of illogical issues by checking Federation of Bosnia and Herzegovina based prosecutor's offices' balance books. Delivered balance books cannot be credible foundation for preparation of financial statements because they do not meet basic accounting principles:

- Debit side does not match credit side
- Assets are not equal liabilities plus capital

It is obvious that balance book does not contain revenues, thus it is impossible that debit and credit side could be equal. However, regardless of aforementioned fact, discrepancy between assets and liabilities, points to conclusion that all assets and liabilities have not been shown.

Feasible risks:
- ☐ Preparation of incorrect financial statement due to irregular and incomplete balance book
- ☐ Legal liability of principal prosecutor in case of Tax authority control, due to incorrect financial reports

Feasible risk management:
- ☑ Prosecutor's offices should require delivery of correct and complete balance book.
- ☑ All entries in balance book should be reduced to real state as per inventory (especially receivables and liabilities)
- ☑ Organize direct general ledger entry and taking reports directly from general ledger

12.3. Prosecutor's offices' financial reports for 2009 submitted to AFIP

Based on the data from balance books, prosecutor's offices have prepared income statement and balance sheet on December 31 2009, which look as follows:

Income Statement

Description	Federal	East Sarajevo	Goražde	Trebinje	Široki Brijeg
I. EXPENSES				Not submitted	Doesn't prepare income statement
Gross salaries and wages	920.271	955.075	89.518		
Indemnities for employees' expenses	65.452	49.808	10.343		
Employer contributions	96.628	16.168	16.520		
Business trips	15.048,	2.381	1.672		
Energy		64.266	2.240		
Communal services	10.646	32.734	3.371		
Materials	8.402	10.162	4.137		
Transportation	2.699	11.639	1.976		
Maintenance	5.173	2.724	1.369		
Bank and insurance expenses	3.810	5.097			
Contractual service	14.177	154.421	39.948		
Financing indemnities		16.627			
Total expenses	**1.142.306**	**1.321.102**	**171.094**		
I. REVENUES					
Current grants		16.627			
Budget revenues		1.304.475			
Total revenues		**1.321.102**			

Balance sheet

DESCRIPTION	Federal	East Sarajevo	Mostar	Široki Brijeg	Goražde	Trebinje
Gross fixed assets	338.412	472.345	1.447.935	212.545	127.035	Not submitted
Intangible investments		5.523				
Value corrections	-288.698	-314.574	-820.508	-164.196	-44.860	
Net fixed assets	**49.714**	**163.294**	**627.427**	**48.349**	82.175	
Cash	2.774			261		
Short term receivables	14.530	1.037				
Financial and settlement relations with affiliated units	93.348	240.741	384.979	181.746		
Short term prepaid expenses	720					
Total current assets	**111.372**	**241.778**	**384.979**	**182.007**	**0**	
TOTAL ASSETS	**161.086**	**405.072**	**1.012.406**	**230.356**	**82.175**	
Short term liabilities	10.536	109.685	374.446	12.501		
Liabilities to employees	86.306	102.428		169.506		
Short term accruals		29.665				
Sources of fixed assets	49.714	163.294	637.960	48.349	82.175	
Unallocated revenues over expenses	14.530					
TOTAL LIABILITIES	**161.086**	**405.072**	**1.012.406**	**230.356**	**82.175**	

Expenses in income statement are identical with balance book at all prosecutors' offices. However, with Federation of Bosnia and Herzegovina based prosecutor's offices, revenues of

prosecutor's offices were not entered in income statements, thus this form does not meet its basic purpose and does not give basic information to users who read financial statements. Revenues were not entered as this was ordered by internal instructions of Federal ministry of finances, which were not officially published (all budgetary users in Federation of Bosnia and Herzegovina act this way). The instruction not to input revenues was given in order to alleviate preparation of consolidated reports for higher levels of budget, while financial report users and basic principles of accounting standards were neglected.

Certain illogical issues exist in balance sheets of prosecutor's offices in Federation of Bosnia and Herzegovina:

- ☑ Item "Financial and settlement relations with affiliated units" was shown with all prosecutors' offices, although it does not exist in balance book.
- ☑ In one case (Mostar) fixed assets are shown lesser (10.533 KM) than in balance book. Liabilities shown in balance sheet are 194.060 KM lesser than liabilities shown in balance book for the same office.
- ☑ One prosecutor's office (Goražde) showed "apartments" (100.150 KM) and "illumination" (13.092 KM) items within "buildings" position. These positions are, as per their accountant's statement, shown incorrectly in the balance book of the prosecutor's office, and this mistake is allegedly corrected in 2010. While we were visiting the prosecutor's office, we could not verify if this mistake was indeed corrected. Position "petty cash" (128,29 KM) from the balance book of same prosecutor's office, was not entered in the balance sheet. Also, position "short term liabilities" (29.337 KM) which exists in balance book was not entered in balance sheet.
- ☑ Significant amount of "liabilities to employees" is shown in one prosecutor's office (Široki Brijeg), which is a consequence of failure to pay contributions on salaries. Forms M-4 were not submitted to PIO (Pension-Invalid insurance) in the same office, thus employees don't have regular social security. This prosecutor's office didn't prepare and submit income statement for 2009.
- ☑ Position "Unallocated revenues over expenses" which dates from earlier years and which had to be allocated as per the Law on budget, is shown at one prosecutor's office (Federal). Position "disputable and doubtful receivables" is shown in same prosecutor's office, while it is not known what particular receivable it is about.
- ☑ It should be emphasized that prosecutor's offices in Federation of Bosnia and Herzegovina have not make inventory lists of receivables as of December 31 2009, although it is legal obligation.

Feasible risks:

- ☐ Incorrect financial statements can give wrong picture on work of a prosecutor's office in view of users of financial statements.
- ☐ Legal liability of principal prosecutor in case of audit by tax authorities due to incorrect financial reports
- ☐ Making of a bad public image of a prosecutor's office due to absurd items in financial statements and due to negative assessment by state audit

Feasible risk management:

- ☑ Prosecutor's offices should request delivery of correct and complete balance book next year.
- ☑ All items in balance book should be reduced to the real state per inventory list (especially receivables and liabilities), and balance sheet and income statement must match to data from the balance book and general ledger
- ☑ Organize direct data input in the general ledger and taking reports directly from general ledger, or entrust preparations of financial reports to specialized agency.

12.4. Signing of financial reports

Special conditions are prescribed by the Law on accounting in both entities in relation to persons who can sign financial reports.

As per article 12 of the Law on accounting and audit in Republika Srpska, legal entity or private business, based on that law, regulates level of education, work experience and other conditions for person who maintains and prepares financial reports. Maintenance of business books and preparation of financial reports can be entrusted to another legal entity of private business that is register for bookkeeping and accounting services, which is employing qualified personnel to whom maintenance of business books and preparation of financial reports is entrusted, and who also meet other criteria set by Law and general by-laws of the legal entity.

Bookkeeping evidence at both prosecutors' offices in Republika Srpska is being maintained within the office itself, and persons liable for maintenance of business books and preparation of financial reports are graduated economist and have professional title CPA, thus they can maintain prosecutor's office's business books and sign financial reports.

2009 annual financial reports for two Federation of Bosnia and Herzegovina based prosecutor's offices (Mostar and Široki Brijeg) have been signed by treasury associates who don't have CPA certificate, as well as by principal prosecutor. As per former Law on accounting, which was valid in 2009, this form of signing was in accordance to the law, since licensed accountant didn't have to sign in case he/she was employed in that organization, and was doing accounting only for that organization.

However, by inception of the new Law, former way of signing financial reports should not be practiced. Namely, article 37 of the new Law, requires following:

"Person authorized for legal representation of a legal entity, registered with court registry, is responsible for financial reports of that legal entity:

- Financial reports of the legal entity must be verified by stamp and signature of certified accountant, which contains name "certified accountant", his name and surname, as well as number of valid license, except for certified accountants from article 5 item 6 of this Law (Licensing is not required for certified accountants who perform accounting job for internal needs of the business of for other business internally).

- Financial reports have to be signed by person authorized for legal representation of a legal entity, registered with court registry, who submits financial reports, verified by the stamp of the legal entity – applicant."

With one prosecutor's office (Federal), financial reports were signed by certified accountant of another budgetary beneficiary (court), which is in accordance with former Law on accounting which was valid in 2009. However, this will not be possible anymore since the new law was brought, because court is not registered for accounting services.

Financial reports were not signed at all in one prosecutor's office (Goražde).

Feasible risks:

- ☐ Legal liability of principal prosecutor in case of audit by tax authorities due to incorrect financial reports
- ☐ Preparation of incorrect financial reports by non-professional person

Feasible risk management:

- ☑ Hiring certified accountant in prosecutor's office
- ☑ Entrust maintenance of business books to registered bookkeeping agency which hires certified and licensed accountant.
- ☑ Another way officially prescribed by ministry of finances (e.g. signing by certified and licensed accountant who is employee of ministry of finances and who simultaneously maintain prosecutor's office's general ledger).