

LAW ON FINANCING OF THE INSTITUTIONS OF BOSNIA AND HERZEGOVINA

("Official Gazette of BiH", Nos. 61/2004, 27/2008 - decision of the Constitutional Court, 49/2009, 42/2012, 87/2012, 32/2013 and 38/2022)

(Unofficial consolidated text)¹

I – General Provisions

Article 1

Application Subject Matter

This Law regulates the preparation, adoption, implementation, accounting, reporting and supervision of the budget of Bosnia and Herzegovina, the single account of the Treasury on the level of Bosnia and Herzegovina and investments of public assets, principles, the system and compliance of financial management and control in the institutions of Bosnia and Herzegovina.

Article 2

Definitions

(1) Within the meaning of this Law, the terms used herewith shall have the following meaning:

- a) Budget: represents an act of the Parliamentary Assembly of Bosnia and Herzegovina which sets out budget users' financial activity plan and which includes the envisaged amount of revenues and determined amount of expenditures for a single fiscal year period. This budget also determines the upper limit of the entire debt of Bosnia and Herzegovina, including the current debt and the envisaged new debt for the given fiscal year;
- b) Budget users: represent all institutions of Bosnia and Herzegovina and all other bodies financed from the budget and regulatory bodies;
- c) Entities, that is, entity: the Federation of Bosnia and Herzegovina, that is Republika Srpska;
- d) District: the Brčko District of Bosnia and Herzegovina;
- e) Fiscal year: the period from 1 January to 31 December;
- f) Revenues: mean, without limitation, tax and non-tax revenues, transfers from entity budgets, other revenues stipulated by legal regulations including revenues based on budget users' business activities;
- g) Public financial assets mean, without limitation, all financial assets collected on the basis of revenues, fees, compensations and own revenues from offering public services and activities, and consist of: current expenditures (salaries and allowances for employees, material costs and services, insurance costs, banking services, and contracted services), current grants, capital expenditures, debt servicing, grants allocated to other levels of

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government, subsidies, and donations;

h) Fund: represents a fiscal and accounting entity with self-balancing series of accounts on which are recorded financial assets and other financial sources, including all liabilities relating to them as well as the relevant balances and changes in them which were separated with the purpose of performing special activities or meeting certain goals prescribed by special regulations or limitations. The accounting fund does not have the legal entity status.

i) Treasury Single Account: represents the system consisting of all banking accounts that are kept on behalf of the Ministry of Treasury and Finance of Bosnia and Herzegovina with one or more commercial banks, and through which all transactions relating to budget assets are conducted and recorded in the General ledger of the Treasury;

j) Expenditures: they represent a decrease in budget financial assets and are composed of current expenditures (salaries and fees for the employees, material costs and services, insurance costs, banking services and contracted services), current grants, capital expenditures, debt-servicing, grants allocated to other governmental levels, subventions and donations.

k) Appropriation: represents a lawful authorisation given by the Parliamentary Assembly of Bosnia and Herzegovina, contained in the budget for budget users for taking over of responsibilities for procurement of goods, services, works or buildings that will be used for the purposes specified in the budget, namely in the amounts that cannot be higher than the amount approved for those purposes during fiscal years;

l) Allocation of budget financial assets: relates to the authorisation of the Ministry of Finance and Treasury to transfer budget authorisations and allocate the available budget financial assets among budget users over the course of the fiscal year, according to the adopted budget items and time periods;

m) Encumbrance on a budget position: it relates to potential expenditures which are incurred by procurement of goods, services, works or buildings. Encumbrance on or debiting of a budget position is valid from the moment a request for procurement of goods, services, works or buildings is approved, entered and recorded in the automated system of the General ledger of the Treasury. It is a budget account that is used for accounting records of the amounts of purchase orders, contracts or salary-based liabilities which the appropriation is charged with;

n) Regulatory bodies: all independent bodies established at state level which have the legal entity status in accordance with the legislation of Bosnia and Herzegovina and which are entirely self-financed;

o) Modified accounting basis of event occurrence: an accounting basis according to which revenues are recorded over the period in which they become available and measurable, whereas the expenditures are recognized at the moment of liability occurrence;

p) Outstanding liabilities: any liability that should be paid and that has not been fully paid on due date;

r) Programme: means grouping of similar activities or services which are performed by the competent ministry or budget user within a particular timeframe in order for them to achieve their strategic goals;

s) Framework budget document: is an act that contains macroeconomic forecasts, revenue projections, expenditure policies and budget expenditure upper limits for budget users of the next year and the following two fiscal years and represents a preliminary budget draft

for the next year;

t) Upper expenditure limit: is the highest amount of expenditures approved to the budget user in a fiscal year;

u) Budget calendar: an appropriate document of the Ministry of Finance and Treasury of Bosnia and Herzegovina with defined key requirements for making reports and deadlines for preparation of the framework budget document and annual budget;

v) Internal supervision: means the system which prescribed and checks the application of the procedures and responsibilities used by the institutions of Bosnia and Herzegovina with the aim of minimising the possibilities of fraud and misuse;

z) Statement of responsibility for the achievement of the institution's goals means the statement whereby the institution director confirms that over the course of the year he has ensured dedicated, purposeful and lawful use of the financial assets approved through the budget of the institution for achievement of the set goals and economic, efficient and effective functioning of the system of financial management and controls within the institution.

aa) Institution of Bosnia and Herzegovina – budget users as defined under Article 2, paragraph (1) item (b) of this Law and public companies defined as laid out in Article 1,

paragraph (2) and Article 2, paragraph (2) of the Law on Internal Audit of the Institutions of Bosnia and Herzegovina;

bb) Financial management and control is a comprehensive system of policies, procedures and activities which is established by and for which is responsible the institution's director. The system of financial management and control is based on risk management and provides reasonable assurance that the institution goals will be achieved in a proper, cost-effective, efficient and effective way;

cc) Risk is a probability that an event that may affect the achieving of the organizational goals will happen. The risk is measured according to the effect and probability of happening;

dd) Internal control standards mean generally accepted standards of good practice which are compliant with the Public Sector Internal Control Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI)

ee) Audit trail is a documented flow of financial and other transactions, from their beginning to end, whose objective is enabling reconstruction of each individual activity and its approval. It encompasses the documenting, recording and reporting system.

ff) Irregularity is any infringement of regulations related to financial management or business control which is the consequence of an action or error committed on the part of the institution director or employee, and which has or could have, a harmful effect on the assets which the institution disposes of;

gg) Fraud means conscious act or failure to act relating to fake, inaccurate or incomplete representation of facts, as well as to the abuse thereof, which results in a negative effect on the financial assets which the institution disposes of.

hh) Central Compliance Unit – administrative organization within the Ministry of Finance and Treasury of Bosnia and Herzegovina established based on the Law on Internal Audit of the Institutions of Bosnia and Herzegovina and the Law on the Council of Ministers, Ministries and other Administrative Bodies of Bosnia and Herzegovina;

ii) Coordination Board of the Central Harmonisation Units (hereinafter CHUs) - a coordination body set up pursuant to Article 28 of the Law on Internal Audit of the Institutions of Bosnia and Herzegovina and competent for regulation harmonisation in the field of financial management and control in accordance with the relevant provisions of the Law on Financing the Institutions of Bosnia and Herzegovina.

Article 3

Ministry of Finance and Treasury

(1) Based on the Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina, (Official Gazette of BiH, Nos. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07 and 35/09), the Ministry of Finance and Treasury of Bosnia and Herzegovina (hereinafter: the Ministry of Finance and Treasury) is responsible for budget preparation, budget execution and financing of budget institutions and activity coordination in order to ensure budget financial assets and public asset investments, and performs other activities in the field of financing budget users in accordance with the Constitution and the law.

(2) The Ministry of Finance and Treasury of Bosnia and Herzegovina is also responsible for adopting accounting procedures, informing budget users, managing the single account of the Treasury and the General ledger of the Treasury.

(3) The Ministry of Finance and Treasury of Bosnia and Herzegovina has exclusive powers for issuance and management of the internal and external debt of Bosnia and Herzegovina. With regards to the creation of new debit item according to the instruction and on behalf of the entity or District, the Ministry of Finance and Treasury of Bosnia and Herzegovina will consult the respective entity or District.

(4) The Ministry of Finance and Treasury of Bosnia and Herzegovina is responsible for production of all documents and official reports and keeping of original documentation for each newly occurred debit.

Article 3a

Budget User Status

(1) The budget user status is acquired on the basis of the Constitution of Bosnia and Herzegovina and the law.

(2) New budget user is entered in the Budget User Register kept by the Ministry of Finance and Treasury.

(3) The body or authority that does not have the status of budget user is financed through the budget user that is part of.

Article 4

Finance Officials

(1) Each budget user shall appoint at least one finance official who cannot be director of the

budget user. Each finance official will report directly to the director of the budget user.

(2) Finance official will, as ordered by director of the budget user, perform the tasks of financial planning, budget preparation and budget execution of the respective budget user. In addition to that, the official will be also responsible for set up and maintenance of adequate management systems and accounting control of the approved budget financial assets and budget assets' allocation, the approved cash flow plans and operating budgets, revenues, all expenditures and payments as well as implementation of the audit recommendations.

II – Budget

Budget preparation

Article 5

Mid-term Budget Planning Framework

(1) Budget management and budget preparation will be based on the Framework budget document which covers at least one fiscal year and the next two fiscal years. The Ministry of Finance and Treasury of Bosnia and Herzegovina shall prepare the budget in accordance with the mid-term framework plan of revenues and expenditures.

Article 5a

Preparation of the Framework Budget Document

(1) By 31 January of the current year at the latest, the Ministry of Finance and Treasury of Bosnia and Herzegovina will deliver to the budget users budgetary instructions with the budget calendar for preparation of the Framework budget document and annual budget, as well as with the guidelines for the preparation of the budget users' priority tables as per economic and programme classification, which are input elements for the preparation of the Framework budget document.

(2) By 31 March at the latest, the Economic Planning Directorate shall produce a Draft of macroeconomic projections for the current and next three years in line with Articles 27a and 27b of the Law on the Council of Ministers of Bosnia and Herzegovina ("Official Gazette of BiH", Nos. 30/03, 42/03, 81/06, 76/07, 81/07, 94/07 and 24/08).

(3) By 15 April at the latest, the Unit for Macroeconomic Analysis of the Indirect Taxation Authority's Management Board shall produce a Draft of the projected revenues based on indirect taxes for the current year and the next three years.

(4) By 15 April of the current year at the latest, the budget users shall submit priority review tables to the Ministry of Finance and Treasury of Bosnia and Herzegovina for the next year and the next two fiscal year in the form and with the contents prescribed by the Ministry of Finance and Treasury of Bosnia and Herzegovina.

(5) By 28 April at the latest, the Ministry of Finance and Treasury of Bosnia and Herzegovina shall produce a Draft of the Budget Framework Document sections which contain macroeconomic and fiscal projections for the current and next three years.

(6) In accordance with Article 7 of the Law on Fiscal Council of Bosnia and Herzegovina ("Official Gazette of BiH", No. 63/08) and adopted "Global Framework of Fiscal Balance and Policies of Bosnia and Herzegovina" relating to the institutions of Bosnia and Herzegovina, the Ministry of Finance and Treasury of Bosnia and Herzegovina shall submit the

Framework Budget Document to the Council of Ministers for adoption no later than 15 June of the current year.

(7) The Council of Ministers shall adopt the Framework Budget Document by 30 June at the latest, and the Ministry of Finance and Treasury shall publish the adopted the Framework Budget Document on the official website of the Ministry of Finance and Treasury by 15 July at the latest.

Article 6

Budget Instructions for Budget Users

(1) By 1 July of the current year, the Ministry of Finance and Treasury of Bosnia and Herzegovina shall submit to the budget users the budget instructions for the next year which shall contain:

- a) upper expenditure limits per each budget user for the next fiscal year;
- b) the instructions related to the preparation of budget requirements for allocation of budget financial assets for the next year in line with the mentioned upper limits and in the form as prescribed by the Ministry of Finance and Treasury of Bosnia and Herzegovina, including an overview of the requested financial assets according to economic and programme classification;
- c) the budget shall be adopted according to economic expenditure classification, whereas the submitted programme classification shall be enclosed by the Ministry of Finance and Treasury of Bosnia and Herzegovina as additional information to the budget explanation in the procedure of adopting the budget of the institutions of Bosnia and Herzegovina.

(2) Should the Council of Ministers fail to adopt the Framework Budget Document by 1 July of the current year, the Ministry of Finance and Treasury will forward the instructions from paragraph (1) of this Article together with the upper expenditure limits in line with the plan defined in the Framework Budget Document Draft and in accordance with the parameters defined in the Global Framework of Fiscal Balance and Policies of Bosnia and Herzegovina which is adopted by the Fiscal Council.

(3) Should the Fiscal Council fail to adopt the Global Framework of Fiscal Balance and Policies of Bosnia and Herzegovina by 1 July of the current year, the Ministry of Finance and Treasury will forward to the budget users the instructions from paragraph (1) of this Article with upper expenditure limits at the level of the approved budget for the current year.

Article 7

Submission of Budget Requests

(1) All budget users must submit for the next year their funding request proposals to the Ministry of Finance and Treasury not later than 1 August of the current year.

(2) The assessment of revenues and the expenditure approval requests submitted by the budget users shall mandatorily be based on the analysis of planned costs and adequate cost-benefit analyses, priority analyses and the elements of expected results and goals. With regard to the multi-year capital investment programmes adopted by the Council of Ministers, the request in the first year shall include the total project expenditures and it shall be accompanied by the project management phase plans and cost assessments for every year to come. With regard to other multi-year projects, the requests for future authorisations must be based on the initial

budget request and updated in the following budgets through the total cost assessments during all years.

(3) The Ministry of Finance and Treasury shall consider the budget users' revenue assessments and expenditure approval requests. Following consultations and negotiations with budget users, the Ministry of Finance and Treasury shall define the allocation of funds to each budget user. If no agreement on allocation of funds has been reached between the budget users and the Ministry of Finance and Treasury, the Council of Ministers shall be responsible for rendering a decision thereof.

(4) Exceptionally from the provisions of paragraphs (1), (2), and (3) of this Article, the Parliamentary Assembly shall, in accordance with the provisions of this Law, prepare a draft annual budget and submit it to the relevant Parliamentary commission for confirmation.

(5) Having received the approval from the relevant Parliamentary commission, the Parliamentary Assembly of BiH shall provide the Ministry of Finance and Treasury of BiH with its draft budget to be incorporated into the draft law on budget institutions of Bosnia and Herzegovina and international obligations of Bosnia and Herzegovina, within the deadlines stipulated in this Law.

(6) The Ministry of Finance and Treasury of BiH, the Council of Ministers of BiH and the Presidency of BiH may provide their respective opinions on the draft budget of the Parliamentary Assembly of BiH, having no possibility to change it, unless the draft budget of the Parliamentary Assembly of BiH is in contravention of the assumed obligations related to restrictions in expenditures and/or consumption under the signed international agreements, or where the draft budget of the Parliamentary Assembly of BiH leads to a budget imbalance, the balancing of which would result in reduction of the draft budget of any other budget user, individually or linearly at the summary level, or if the draft budget of the Parliamentary Assembly of BiH implies funding the expenditures of the Parliamentary Assembly in a manner contrary to the provisions of the Law on Fiscal Council of BiH ("Official Gazette of BiH", No. 63/08).

(7) If the Directorate for Economic Planning or a Division for Macroeconomic Analysis of the Management Board of the Indirect Taxation Authority during the year, following the expiry of the deadline defined under Article 5a, paragraphs (2) and (3) of this Law, revises macroeconomic and fiscal projections used for the revenue assessment and the Fiscal Council adopts a decision on possible changes of previously adopted budget frameworks, the Ministry of Finance and Treasury shall also revise the revenue assessment in the draft budget for the next year which is to be submitted to the Council of Ministers.

(8) The Ministry of Finance and Treasury shall submit for the next year a Draft Law on Budget of Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina to the Council of Ministers not later than 1 October of the current year.

Article 8 **Budget Content**

(1) A draft budget shall mandatorily contain a detailed specification of revenues and expenditures under standard budget classifications, including capital expenditures, in accordance with the Rulebook to be issued by the Ministry of Finance and Treasury.

(2) The draft budget shall also include the following:

a) Revenues and expenditures:

- Review of estimated revenues by funds and sources;
- Review of proposed expenditures under standard budget classifications;
- Expenditure proposal for every budget user and a revenue source proposal for every budget user.

b) Explanations shall include:

- Macroeconomic indicators and analysis of their effects on the Framework Budget document;
- Data on all revenues generated and expenditures incurred in the previous fiscal year and a report on budget execution in the first half of the current fiscal year for every budget user;
- Data on current and long-term foreign debt liabilities of Bosnia and Herzegovina, including the principal repayment, interest payment, estimated amounts pertaining to exchange rate differences, and other liabilities related to debt servicing,
- Data on internal debt liabilities of Bosnia and Herzegovina, including the remaining principal repayment, interest payment, estimated amounts that are to be issued during the fiscal year and the purpose of the issuance;
- Capital expenditures;
- Grants to non-profit organisations;
- Guarantees; and
- Summary of grants and donations

c) Current reserve

Data on current reserve which may not exceed 3% of the budgetary funds, excluding the debt servicing and repayment amounts.

d) Annexes:

- Review of the number of officers and employees grouped by budget user and classification of civil service posts, and differences compared to the previous fiscal year;
- Review of projected capital expenditures for a fiscal year in relation to which the budget is to be adopted, and which form a part of a multi-year capital investment programme, adopted by the Council of Ministers and which last longer than a fiscal year;
- Written communications between each regulator and the Ministry of Finance and Treasury, if any.

e) Multi-year capital budget

- Upon adoption of the multi-year capital investment programme by the Council of Ministers, capital expenditures shall be considered to be the future encumbrances on the budget positions under the temporal dynamics criteria defined as an investment programme integral part;
- A part of the multi-year capital budget, pertaining to the fiscal year for which the budget has

been prepared, shall be entered into the budget in accordance with the prescribed budget Classifications;

- Budget users shall also be obliged to provide explanations for all interrupted multi-year investment programmes.

f) Loans to fund a short-term budgetary deficit

A draft budget shall define a maximum amount of short-term indebtedness to enable the Ministry of Finance and Treasury to cover expenditures and manage the cash efficiently, provided that such loans must be repaid during the fiscal year.

g) Guarantees

A draft budget shall define a maximum amount of guarantees and all other securities constituting potential liabilities.

Article 9 **Regulatory Body's Budget**

(1) Any regulatory body shall file its own budget (hereinafter: the regulatory body's budget) with the Ministry of Finance and Treasury by 1 August of the current year for the next fiscal year.

(2) If the Ministry of Finance and Treasury proposes an amendment to the regulatory body's budget, it shall be obliged to reason and submit it to the regulatory body. The regulatory body shall be obliged to provide its response to the proposed amendment prior to having the draft budget filed with the Council of Ministers.

(3) If no agreement has been reached between the regulatory body and the Ministry of Finance and Treasury about the amount of the regulatory body's budget, written correspondence exchanged between the regulatory body and the Ministry of Finance and Treasury shall be submitted to the Council of Ministers in a form of an attachment to the draft budget.

(4) The Council of Ministers may not reduce the budget submission of the regulatory body by more than 20%.

(5) Any reduction of the regulatory body's budget shall automatically become an authorisation for a potential appropriation on behalf of the relevant regulatory body, depending on the approval by the Parliamentary Assembly of Bosnia and Herzegovina. The amount of the approved budget of the regulatory body referred to in Article 2, paragraph (1), subparagraph (n) of this Law and funds allocated based on the authorisation for a potential appropriation must not be larger than the amount of the total planned own revenues in the current year.

(6) In the case of reduction of the regulatory body's budget, the regulatory body shall be obliged to adjust individual budget items based on the approved budget.

(7) If the regulatory body collects more revenues than planned in the budget for the current fiscal year, they will be used to finance the regulatory body's expenditures in the following fiscal year in accordance with the approved budget for that year.

Enactment of the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina

Article 10

Adoption of the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina

- (1) The Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina contains the budget developed in accordance with Article 8 of this Law and the provisions regulating specificities of the budget execution in the current year.
- (2) The Council of Ministers shall be obliged to submit to the Presidency of Bosnia and Herzegovina a Draft Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for the next year not later than 15 October of the current year.
- (3) In accordance with its Rules of Procedure, the Presidency of Bosnia and Herzegovina shall be obliged to submit for the next year a Proposal of the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina to the Parliamentary Assembly by 1 November of the current year.
- (4) The Parliamentary Assembly of Bosnia and Herzegovina shall consider the Proposal of the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina submitted by the Presidency of Bosnia and Herzegovina and, in accordance with its Rules of Procedure, it shall adopt the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina by 31 December of the current year.

Interim Financing

Article 11

Interim Financing

- (1) If the Parliamentary Assembly of Bosnia and Herzegovina fails to adopt the Budget Law prior to the beginning of the fiscal year, financing shall be temporary until the entry into force of that Law.
- (2) In order to perform the legally defined activities of budget users, interim financing shall take place in the amount of up to one fourth of the budget intended to finance the institutions of Bosnia and Herzegovina, in accordance with the most recent Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina. The Minister of Finance and Treasury of Bosnia and Herzegovina is obliged to implement this provision and must do so in a timely manner.
- (3) The budget users may not initiate new or extended programmes and activities prior to being approved in the Budget Law.
- (4) Continuation of multi-year projects, procurement of goods and services, that is, payment of funds for these purposes, shall be allowed in accordance with the interim financing

requirements, provided that the multi-year financing or authorisation for future obligations has been approved under the previous budgets.

(5) During interim financing, the Council of Ministers may render a special decision on expenditures which have not been planned in the budget for the previous year, however, expenditures of the institutions of Bosnia and Herzegovina, which include expenditures referred to in paragraph (2) of this Article, cannot exceed the sum of revenues collected during the interim financing period from indirect taxes, own incomes and funds carried over. Expenditures incurred on this ground shall be approved in accordance with the provisions of Article 17 of this Law, regulating the use of current reserves.

(6) The Parliamentary Assembly of Bosnia and Herzegovina shall adopt the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina by 31 March every year. If the Parliamentary Assembly does not adopt the budget for the current fiscal year by 31 March of the current year, only the current expenditures necessary for the functioning of the institutions of Bosnia and Herzegovina shall be executed, within the expenditure amounts prescribed in paragraph (2) of this Article. <https://advokat-prnjavorac.com>

(7) Exceptionally from the provisions of paragraph (2) of this Article, during temporary financing, expenditures intended for the financing of elections conducted by the Central Election Commission, which are covered from the budget of the institutions of Bosnia and Herzegovina and the international obligations of Bosnia and Herzegovina in accordance with the Election Law of Bosnia and Herzegovina ("Official Gazette of BiH", Nos. 23/01, 7/02, 9/02, 20/02, 25/02, 4/04, 20/04, 25/05, 52/05, 65/05, 77/05, 11/06, 24/06, 32/07, 33/08, 37/08, 32/10, 18/13, 7/14, 31/16 and 41/20), shall be considered current expenditures and shall be executed in accordance with the budget request of the Central Election Commission.

(8) The Ministry of Finance and Treasury of Bosnia and Herzegovina shall be responsible for executing the request of the Central Election Commission. Exceptionally from the provisions of any other law, if the Minister of Finance and Treasury of Bosnia and Herzegovina is unable or unwilling to execute the request of the Central Election Commission for election financing within the prescribed deadline, the Deputy Minister of Finance and Treasury of Bosnia and Herzegovina shall execute such request on the next day following the expiry of the said deadline.

(9) The penal provisions of Article 34, paragraph (2) of this Law shall apply to the Minister and the Deputy Minister of Finance and Treasury of Bosnia and Herzegovina in the event of failure to fulfil the obligations specified in paragraphs (2) and (7) of this Article.

Budget Execution

Article 12

Operational Budgets and Payment Requests

(1) Following budget adoption, the Ministry of Treasury and Finance shall be obliged to inform the budget users of the approved funds from the budget and allocations of these funds by time periods.

(2) The Ministry of Finance and Treasury shall be responsible for the budget execution. In order to serve as the operational budget execution base, the Ministry of Finance and Treasury shall

prepare the cash flow plans through which all payments into and from the Treasury single account shall be projected. Based on these projections, the Ministry of Finance and Treasury shall define a plan for allocation of available budget users' funds during a relevant period of time.

(3) The Ministry of Finance and Treasury shall issue authorisations for future encumbrances of budget positions and for expenditures on a three-month or other basis.

(4) Allocation of funds from the budget shall be used for control of the adopted budget execution through the Treasury Ledger system.

(5) Based on the budget allocation and instructions issued by the Ministry of Finance and Treasury, the budget users shall prepare and submit the operational budget proposals to the Ministry of Finance and Treasury on a monthly basis. The proposed operational budgets shall cover the expenditures and include the total of all outstanding liabilities. The Ministry of Treasury and Finance shall inform the budget users of the approved operational budgets. The Ministry of Finance and Treasury shall provide the Council of Ministers with monthly reports on all outstanding liabilities. Following adoption of the report by the Council of Ministers, the Ministry of Finance and Treasury shall discontinue the payments of the budget user's liabilities in the amount which is sufficient for the payment of the budget user's outstanding liabilities.

(6) Within the approved operational budgets, the budget users shall issue a request for payment and keep records on the budget transactions applying the automated Treasury Ledger system in accordance with the instructions of the Ministry of Finance and Treasury.

(7) The Ministry of Finance and Treasury shall perform the budget transactions through the automated Treasury Ledger system and inform the budget users about the status of payments made on their behalf and about available budget resources under the prescribed classifications.

(8) Upon request, the budget users shall inform their suppliers and other stakeholders of the status of all payments.

Article 13 **Revenue Collection**

(1) Collection, allocation and distribution of indirect tax revenues, other revenues and duties falling within the scope of competence of the Indirect Taxation Authority shall be regulated by the Law on Indirect Taxation System (*Official Gazette of BiH*, No. 44/03, 52/04, 32/07, 34/07, 4/08 and 49/09), Law on the Payments into the Single Account and Distribution of Revenues (*Official Gazette of BiH*, Nos. 55/04, 34/07 and 49/09) and other bylaws and regulations.

(2) Non-tax revenues and other revenues intended for financing the institutions of Bosnia and Herzegovina shall be collected through the Treasury Single Account system in accordance with this Law.

(3) Revenues from the respective budgets of the Entities, District and institutions of Bosnia and Herzegovina, intended for debt repayment, shall be collected pursuant to the provisions of the Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina (*Official Gazette of BiH*, Nos. 52/05 and 109/09) and the provisions of Article 12, paragraphs (2), (3) and (4) of the Law on the Payments into the Single Account and Distribution of Revenues, budget projections and timeframes as defined by the Ministry of Finance and Treasury in cooperation with the relevant Entity and District ministries and in accordance with planned obligations related to debt repayment.

(4) Revenues and payments made following expiry of the previous fiscal year, but before 1 February of the current fiscal year, which originate from the previous fiscal year shall be recognised as revenues and payments in the financial statement of accounts for the previous fiscal year, in accordance with instructions issued by the Ministry of Finance and Treasury.

(5) Revenues generated from sale of assets, leasing the assets and from services provided, including fees (remunerations), fines and other types of revenues shall only be recognised following their collection.

(6) Revenues generated from sale of fixed assets may be used in the same year in which they are generated, had they been planned in the budget, in accordance with Article 8, paragraph (2), subparagraph a) of this Law, with the consent of the Ministry of Finance and Treasury. The method and the form of approval for spending the revenues generated from sale of fixed assets shall be specified in the instructions issued by the Ministry of Finance and Treasury.

Article 14 **Expenditures**

(1) The Ministry of Finance and Treasury shall be obliged to put into procedure all requests for the assumption of obligations and/or payment of funds filed by the budget users if the funds for that purpose are contained in the relevant budget item and in a document on the budget allocations to budget users. The funds shall be paid from the Treasury Single Account only under the procedures prescribed for the budget execution through the Treasury Ledger system.

(2) Budget users shall not be allowed to create obligations, that is, expenditures or encumbrances on the budget positions if funds for such expenditures or budget position encumbrances have not been approved within the funds allocated for that budget institution.

(3) Expenditures of any budget user may not exceed the allocated budget approved for every three-month or longer period as defined by the Ministry of Finance and Treasury, unless approved by the Ministry of Finance and Treasury.

(4) Expenditures or budget position encumbrances which are to be paid from the allocated grants, loans or donations paid to budget users cannot be executed prior to obtaining the approval of the Ministry of Finance and Treasury.

(5) Unused appropriations and encumbrances from the current fiscal year shall expire on 31 January of the following fiscal year.

(6) Appropriations may be carried over to the following fiscal year to fund the projects from special funds, projects of special importance for the economic development or better efficiency, to fund the projects financed from donations and to fund the multi-year capital investment programmes adopted by the Council of Ministers and showed in Annex to the budget.

(7) The Ministry of Finance and Treasury shall be responsible for the payment of expenditures related to foreign debt servicing. In accordance with Article 43 of the Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina, special-purpose funds shall constantly be allocated for foreign debt servicing. Allocations for special-purpose funds intended for foreign debt servicing shall be made pursuant to Article 13, paragraphs (1) and (3) of this Law. The Ministry of Finance and Treasury shall be responsible for securing that the special-purpose accounts at the Central Bank of BiH have sufficient funds to service foreign debt of Bosnia and Herzegovina.

(8) Foreign debt service expenditures shall be paid through the Central Bank of BiH from funds secured under paragraph (7) of this Article and Article 13, paragraph (3) of this Law. The Ministry of Finance and Treasury of BiH shall be obliged to provide the Central Bank of BiH with payment orders for liabilities in compliance with the agreement concluded between the Ministry of Finance and Treasury of BiH and the Central Bank of BiH. This agreement shall be signed within 30 days from the date on which this Law has come into force.

(9) Regardless of whether the budget has been adopted or not, foreign debt shall be serviced pursuant to paragraphs (7) and (8) of this Article.

(10) The Minister of Finance and Treasury shall be subject to the penalty provisions of Article 34, paragraph (2) of this Law if he fails to service foreign debt in accordance with the provisions of paragraphs (7) and (8) of this Article.

Article 15 **Balancing the Budget**

If during the fiscal year expenditures increase or revenues decrease due to exceptional circumstances and needs or due to the amendments and supplements to the regulations, the Ministry of Finance and Treasury may balance the budget by decreasing the planned expenditures or identifying new revenues. In such case, amendments and supplements to the budget shall be urgently submitted to the Parliamentary Assembly of Bosnia and Herzegovina.

Article 16 **Restructuring and Reallocation**

(1) Upon a written request of a budget user, the Ministry of Finance and Treasury may render a decision to restructure expenditures within the total funds approved in the budget for that budget user.

(2) Within the budget, reallocation of funds shall be exceptionally allowed between the budget users if approved by the Council of Ministers, following receipt of the opinion of the Ministry of Finance and Treasury. The budget approved for the Parliamentary Assembly of Bosnia and Herzegovina, Constitutional Court of Bosnia and Herzegovina and other judicial institutions of Bosnia and Herzegovina and the Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina, including the amounts approved for salaries and other expenditures for employees, may not be reallocated to other budget users, unless competence thereof has been transferred in full or in part.

Article 17 **Current Reserve**

(1) Upon receiving the opinion of the Ministry of Finance and Treasury, the Council of Ministers shall decide on the use of current reserve. Expenditures to be covered from current reserves shall be recorded in accordance with the foreseen accounting procedures. Budgetary allocations for current reserve must not exceed the amount of 3% of total budget, with the exception of the amount for debt servicing.

(2) The current reserve funds may be used for:

a) funding urgent and exceptional expenditures and programmes not entered into the budget;

- b) funding the international dispute and arbitration costs;
- c) funding new institutions of Bosnia and Herzegovina which have acquired the status of budget users during the fiscal year;
- d) grants to non-profit organisations.

(3) Current reserve funds may be allocated to non-profit organisations in a manner and in the amount as defined in a special decision of the Council of Ministers.

(4) If during the fiscal year certain powers of the budget user have been transferred or the budget user itself ceased to exist, the Council of Ministers shall be obliged to establish a committee to dispose of the overall inventory.

Following adoption of the committee's report, the Ministry of Finance and Treasury shall transfer the funds into the current reserve while the remaining assets shall be transferred based on the decision of the Council of Ministers.

Article 18 **Payment Priorities**

(1) In the case of reduction of the planned monthly cash flows, the Ministry of Finance and Treasury shall make the payments under the following priority schedule:

- a) payment of programmed debt service;
- b) employees' payments and allowances;
- c) uncontested liabilities related to goods and services;
- d) transfers and grants consistent with international liabilities;
- e) other transfers and grants; and
- f) capital expenditures.

(2) In order to maintain the budget liquidity, at the proposal of the Ministry of Finance and Treasury, the Council of Ministers shall be authorised to render a decision on a short-term loan from the Entity budgets or from bank sources or in a manner stipulated in the Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina, at the proposal of the Ministry of Finance and Treasury.

Accounting, Reporting and Auditing

Article 19 **Accounting Methodology**

(1) The Ministry of Finance and Treasury shall issue a Rulebook on Accounting and Financial Reporting, which shall also contain the chart of accounts and a budget classification framework based on internationally recognised standards.

(2) Until such time as the adoption of the international public sector accounting standards, the

Ministry of Finance and Treasury shall record the budget revenues and expenditures by applying a modified accounting calculation method as referred to in Article 2 of this Law.

Article 20 **Accounting Documents**

The budget users shall record financial transactions following instructions issued by the Ministry of Finance and Treasury based on accounting documents, such as contracts, purchase orders, invoices and payment authorisations.

Article 21 **Treasury Ledger System**

(1) The Ministry of Finance and Treasury shall maintain the Treasury Ledger system which records all financial budget-related transactions, including those related to debt and programmes funded from foreign and domestic donations.

(2) The Treasury Ledger system consists of overall records of all revenues and expenditures, funds and sources of funds.

(3) The Treasury Ledger system includes the budget accounts for the purpose of maintaining the accounting records on all stages of the budget process: appropriation, allocation, encumbrances on budget positions, liabilities and payments.

(4) The budget users shall maintain the subsystems of the auxiliary books prescribed by the Ministry of Finance and Treasury and keep all original documentation on transactions in accordance with instructions issued by the Ministry of Finance and Treasury.

Article 22 **Financial Reporting and Auditing**

(1) In accordance with the instructions of the Ministry of Finance and Treasury, all budget users shall prepare the three-month financial reports including explanations pertaining to the budget execution programme results. The three-month reports shall be submitted to the Minister of Finance and Treasury within 30 days after expiry of every three-month period.

(2) The Ministry of Finance and Treasury shall be obliged to prepare and submit a three-month budget execution report to the Council of Ministers. A three-month report must contain a comparative review of approved and actual revenues and expenditures, as well as a proposal of measures to improve the situation. A half-year report shall be submitted to the Council of Ministers, Presidency of Bosnia and Herzegovina and Parliamentary Assembly of Bosnia and Herzegovina. The three-month and half-year reports on the budget execution must be filed not later than 60 days from the end of every three-month period.

(3) A Final Financial Report must be prepared by all budget users and submitted to the Ministry of Finance and Treasury not later than 60 days from the expiry of the fourth three-month period and, for every budget user, it shall constitute an Annual Report. Such annual report shall include all pieces of information on the system of internal controls conducted during the year, and corrective activities taken towards implementation of the previous year's audit recommendations. If a budget institution fails to submit the final annual report in a timely manner, within 60 days, the Ministry of Finance and Treasury shall have a discretion right to temporarily cease the approvals of expenditures until the annual reports are received.

(4) Annual report of every budget user shall be audited by the Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina, in accordance with the applicable Auditing Law. Such audit must be performed within 90 days following submission of the budget users' annual reports, before the Ministry of Finance and Treasury is obliged to submit the budget execution annual report in accordance with paragraph (3) of this Article.

(5) Within 180 days from the end of the fiscal year, the Ministry of Finance and Treasury shall mandatorily prepare and submit the budget execution annual report to the Parliamentary Assembly of Bosnia and Herzegovina, following its forwarding to the Council of Ministers and the Presidency of Bosnia and Herzegovina.

(6) The budget execution annual report shall mandatorily contain the following:

- a) Planned revenues, expenditures and financial result as well as rebalances approved by the Parliamentary Assembly of Bosnia and Herzegovina;
- b) execution of revenues and expenditures during the fiscal year, shown in such a manner that it clearly indicates a difference between the approved budget and its execution;
- c) Opening and closing balances in the budgets;
- d) Opening and closing balances in the liabilities and receivables;
- e) fixed assets information;
- f) Explanation of significant differences;
- g) Debt information;
- h) Information on the use of the budget current reserves;
- i) Information on the use of authorisations for potential budget appropriations;
- j) Information on the status of guarantees; and
- k) Information on corrective activities taken towards implementation of the previous year's audit recommendations.

(7) The Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina shall perform annual financial audit of the budget execution annual report in accordance with the applicable Law on Audit.

(8) The Parliamentary Assembly of Bosnia and Herzegovina shall be obliged to adopt the annual audit report and the budget execution annual report prior to being able to approve and adopt a new budget in accordance with Chapter II of this Law.

Article 22a

Declaration on Responsibility for Reaching the Goals of the Institution

(1) Along with the budget execution annual report of the institution, the Head of the institution shall also provide a Declaration on responsibility for reaching the goals of the institution. By this Declaration, the Head of the institution shall confirm that, during the fiscal year, he secured the earmarked, purposeful and legal use of funds approved by the budget of the institution for reaching the set goals, and cost-effective, efficient and effective functioning of the financial

management and control systems in the institution.

(2) The form and a framework content of the Declaration referred to in paragraph (1) of this Article shall be prescribed by the Council of Ministers, at the proposal of the Ministry of Finance and Treasury within 60 days from the date on which this Law has come into force.

(3) In the case that a court having jurisdiction thereof confirms an indictment against the Head due to the frauds in the institution for which the Head was responsible, the Head of the institution shall put his term of office for performing his duties at disposal of the body which appointed him, in accordance with the appointment regulations.

Article 23

Conducting Control

1) The Ministry of Finance and Treasury shall have the right to review all documentation which serves as the base for meeting the liabilities of the budget user. The Ministry of Finance and Treasury shall have the right and obligation to refuse a request which is not consistent with the law, scope, structure and dynamics of the approved budget expenditures and which is not based on the adequate procedures, and to promptly notify the budget user accordingly.

Article 24

Publication

(1) Budget and any amendments and supplement to the budget, and the budget execution annual report shall be published in the “Official Gazette of BiH” within ten days following their issuance, that is, adoption.

(2) Any use of current reserves shall be published in the “Official Gazette of BiH” within ten days following a decision of the Council of Ministers in accordance with Article 17 of this Law.

(3) All documents referred to in paragraph (1) of this Article, a Framework Budget Document referred to in Article 5 of this Law, three-month and half-year reports on budget execution and a Rulebook on Accounting and Financial Reporting, shall be published on the official website of the Ministry of Finance and Treasury within ten (10) days of their adoption.

III – Treasury Single Account

Article 25

Accounts

(1) The Treasury Single Account consists of a deposit account and one or more transaction accounts and special accounts required for debt and international agreements management. Besides, the Ministry of Finance and Treasury may also open supplementary accounts to become an integral part of the Treasury Single Account.

(2) A deposit account is one or more accounts opened with business banks and the Central Bank of Bosnia and Herzegovina, intended for collection of revenues for institutions of Bosnia and Herzegovina.

(3) Transaction accounts are those opened with business banks, via which expenditures of budget users are paid daily. At the end of a working day or as soon as technically possible, all cash from these accounts shall be transferred to the deposit account in the Central Bank of Bosnia and Herzegovina.

(4) Supplementary accounts are those opened with business banks to the name of the Ministry of Finance and Treasury but with the signature authorisation on behalf of the budget user in order for the funds to be used in accordance with instructions issued by the Ministry of Finance and Treasury.

(5) The Ministry of Finance and Treasury shall be solely responsible for the Treasury Single Account management. Not a single budget user or an individual shall be authorised to manage the Treasury Single Account, other than in accordance with explicit instructions of the Ministry of Finance and Treasury.

Article 26 **Investment of Public Funds**

The Ministry of Finance and Treasury may place any amount kept on the Treasury Single Account which is currently not required for the budget purposes. These placements shall be performed to increase the budget resources and in accordance with the requirements referred to in Chapter IV of this Law. All revenues generated through such placements shall be deposited into the Treasury Single Account.

Article 27 **Relationship with Banks**

(1) Only the Ministry of Finance and Treasury shall be authorised to open and maintain accounts in domestic business banks, banks abroad and in the Central Bank of Bosnia and Herzegovina, in accordance with the needs of the Treasury Single Account.

(2) Selection of business banks for offering services related to the available funds management shall be made through open competition in accordance with this Law.

(3) Following selection of business banks in the open competition procedure, the Ministry of Finance and Treasury shall sign contracts with the selected banks to regulate their mutual rights and obligations.

Article 28 **Cash Flow Plans**

(1) The Ministry of Finance and Treasury shall be responsible for the preparation of the cash flow plans by which inflow and outflow of funds from the Treasury Single Account shall be projected. The cash flow plans shall be used as the basis for the budget execution.

(2) The Ministry of Finance and Treasury shall prepare the cash flow plans on a three-month basis.

(3) The Ministry of Finance and Treasury shall receive the required information from various sources in order to produce the cash flow plans. The sources of information shall include, but not limited to, the following:

- a) the Treasury Single Account final balances for the previous period of time;
- b) forecast of all revenues on the Treasury Single Account;
- c) forecast of all expenditures;

- d) debt service forecast;
- e) projections of external flow of aid and borrowing, and
- f) movements within the key macroeconomic parameters.

(4) The Ministry of Finance and Treasury shall analyse this information and prepare a proposal for the cash flow plan. If deficit has been planned, the cash flow plan shall also include the recommendations for the required corrective measures.

Article 29 **Cash Management**

(1) The budget users shall be obliged to deposit all revenues directly into the Treasury single account, following instructions of the Ministry of Finance and Treasury.

(2) All budget users shall be obliged to deposit the funds from donations or their own sources into the Treasury Single Account or to request the Ministry of Finance and Treasury to open special supplementary accounts for these purposes.

(3) Except for expenditures approved by the budget or regulated by another law, cash cannot be withdrawn from the Treasury Single Account.

(4) The conditions related to financial claims based on contracts or any other claims based on revenues cannot be written off or amended without approval of the Ministry of Finance and Treasury.

(5) The Ministry of Finance and Treasury shall be responsible for all budgets and budget users' funds. As part of this competence, the Ministry of Finance and Treasury shall develop and apply the procedures related to the payment method and revenue transactions in the country and abroad.

(6) The Ministry of Finance and Treasury shall be responsible for payments made on behalf of all budget users, by applying the automated Treasury Ledger system. In accordance with the procedures developed by the Ministry of Finance and Treasury, all budget users shall submit their payment requests to the Ministry of Finance and Treasury. The Ministry of Finance and Treasury shall process the payment requests, following verification of the available funds and the existence of authorisations in accordance with the budget, which shall be performed through the automated system for financial information management, and not later than ten working days following their receipt.

(7) Special-purpose funds within the Treasury Single Account, intended for the appropriate functioning of diplomatic-consular network, may be established based on the request for advance transfer of funds filed by the Ministry of Foreign Affairs. The Ministry of Foreign Affairs shall be obliged to subsequently submit documentation on the advance transfer of funds to the Ministry of Finance and Treasury no later than 30 days from the end of the month in which the transfer was made.

(8) For the purpose of cost-effectiveness and efficiency, the Ministry of Finance and Treasury may establish the treasury funds or maintain a treasury cash-desk for the budget users' requests.

(9) The Ministry of Finance and Treasury shall manage directly and be responsible for the

special transactions affecting the Treasury Single Account yet not going through the budget users. These are transactions related to internal and foreign debt, interest and other claims of any financial institution towards the budget users, benefits to financial institutions and other similar transactions which must be solved with the Central Bank of Bosnia and Herzegovina. The Ministry of Finance and Treasury, in consultation with the Central Bank of Bosnia and Herzegovina, shall develop the procedures for such transaction management.

(10) The Ministry of Finance and Treasury shall secure cash for the payment of business travel costs and other petty material costs. Cash shall be withdrawn based on the provided month plan, defined on a weekly basis, cash required and a special request, along with the planned payment specification. A budget user shall be obliged to issue an internal act to define the amount of the petty cash maximum, a method for using it and responsibility for material and physical security of cash, if not previously filed with the Ministry of Finance and Treasury. The Ministry of Finance and Treasury shall give its consent to the internal act on the budget user's petty cash maximum, depending on the scope and specificity of the activities performed by the budget user.

Article 30

Centralised Payment of Salaries

(1) In the field of centralised payment of budget users' salaries, the Ministry of Finance and Treasury shall perform the following functions:

- a) establish and maintain the centralised salary payment system;
- b) establish the amounts of salaries and allowances based on salary grades prescribed by law, and the amounts of contributions and tax liabilities; and
- c) make payments of salaries, contributions and taxes.

(2) In the field of centralised payment of salaries, the budget users shall be obliged to apply the relevant provisions of Article 52 of the Law on Salaries and Compensations in the Institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, Nos. 50/08 and 35/09).

IV – Public Funds Investment

Article 31

Approved Investments

(1) In accordance with Article 26 of this Law, the Ministry of Finance and Treasury may invest public funds deposited into the Treasury Single Account, which are not required for budget purposes at that particular time.

(2) Regulatory bodies shall be subject to the same conditions.

(3) Public funds may only be invested in the following instruments:

- a) Government bonds issued by a foreign country government, rated at a minimum of “A” (of average to high quality, with a plenty of strong characteristics, which are also subject to changeable economic conditions to a certain extent) by the rating agencies with internationally recognised reputation;
- b) Securities with the rating as referred to in subparagraph a) of this paragraph, guaranteed by the government of a sovereign country;

- c) Deposit with any bank that is a member of the Deposit Insurance Agency of Bosnia and Herzegovina and with the Central Bank of Bosnia and Herzegovina;
 - d) Deposit with any bank rated at a minimum of “A” (a very strong bank) by the rating agencies with internationally recognised reputation;
 - e) Repurchase agreements whose underlying purchased securities consist of securities described under subparagraph a) of this paragraph and the custody of which is kept by a third party in its custodian capacity;
 - f) Money market funds regulated by the United States of America SEC or some European Union supervisory institution, the portfolio of which only consists of securities the value of which is expressed in EUR;
 - g) Government securities issued by Bosnia and Herzegovina;
- (4) The foregoing investments shall hereinafter be referred to as “approved investments”.
- (5) Approved investments may not come due after the expiry of a scheduled deadline for the use of public funds being invested.
- (6) All approved investments must be regulated by written agreements.
- (7) For the purpose of risk diversification, a maximum of 25% of public funds may be invested as approved investment in the securities of one issuer or as a deposit with a business bank.
- (8) In order to secure liquidity, at least 10% of public funds must be invested into approved investments the due date of which shall not exceed seven days.

Article 32

Investment Manager and Depositor

- (1) Investment manager shall mean a natural person, a brokerage firm and bank with which the Ministry of Finance and Treasury shall enter into agreement on performing the investment manager duties. A natural person or a legal entity playing the investment manager role must hold the investment manager licence issued by the relevant securities commission.
- (2) Exceptionally from the provisions of paragraph (1) of this Article, the investment manager duties may also be performed by the Minister of Finance and Treasury if public funds are to be invested strictly into approved investments referred to in Article 31, paragraph (3), subparagraph (c) of this Law.
- (3) Investment manager duties may also be performed by the Central Bank of Bosnia and Herzegovina, based on a special agreement concluded with the Ministry of Finance and Treasury.
- (4) A depositor shall mean a bank which, in its capacity as a third party, keeps custody of transferrable purchased securities referred to in Article 31 of this Law.
- (5) Selection of an investment manager and a depositor, excluding the Central Bank of Bosnia and Herzegovina, shall be made through an open competition, in accordance with the Law on Public Procurements of Bosnia and Herzegovina.
- (6) The investment manager shall manage and dispose of funds and make decisions on the

investments with the due care and diligence of a prudent businessman and in the best interest of the Ministry of Finance and Treasury, acting in compliance with the security, liquidity and profitability principles.

(7) The investment manager shall make decisions on investments on behalf of the Ministry of Finance and Treasury. The investment manager may not waive or anyhow transfer the responsibilities stipulated in this Law. If the investment manager invests public funds into approved investments in accordance with the foreseen rules and regulations, he shall bear no responsibility for losses or the decrease in public funds.

Article 33

Reporting on Investment Activities

(1) The Ministry of Finance and Treasury shall submit a report to the Parliamentary Assembly of Bosnia and Herzegovina on an annual basis, as part of the annual reporting on the budget execution.

(2) All investment activities based on this Chapter shall be subject to audit by the Ministry of Finance and Treasury and the Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina.

IV a. Financial Management and Control

Article 33a

Purpose, Goals and Fields of Application of Financial Management and Control

(1) The purpose of financial management and control in the public services provision is for them to be provided as simple, fast and cheap as possible, while securing an adequate level of quality, and in accordance with the law. Therefore, improvement in financial management and decision-making process is purposeful for reaching the organisation's goals, especially general goals, such as:

a) performing the activities in an appropriate, ethical, cost-effective, efficient and effective manner;

b) harmonisation of business activities with the regulations, plans, contracts, policies and procedures;

c) protection of assets and other resources from losses caused by poor management, unreasonable expenditures and usage, as well as protection from irregularities, abuse and frauds;

d) reliable and timely financial reporting and monitoring the business results.

(2) Financial management and control shall pertain to financial processes and activities in the institution's business dealings, as well as to any other processes in the institution.

(3) The provisions of Chapter IVa of this part of the Law pertain to the use of public funds for institutions of Bosnia and Herzegovina as defined under Article 2, subparagraph aa) of this Law, including the funds from the European Union funds and programmes which are used for the projects of support to the referenced institutions of Bosnia and Herzegovina.

Article 33b

Financial Management and Control Components

(1) Financial management and control shall be performed through inter-linked components, which form the elements of internal control standard. They are:

- a) control environment,
- b) risk management,
- c) control activities,
- d) information and communications, and
- e) system monitoring and evaluation.

(2) A detailed elaboration of components of the internal control standard referred to in paragraph (1) of this Article, which are based on actual INTOSAI guidelines, shall be performed by the Central Harmonisation Unit with the Ministry of Finance and Treasury pursuant to the bylaws in the institutions of Bosnia and Herzegovina, such as: methodologies, framework manuals, framework rulebooks, operational guidelines and instructions.

Article 33c

Establishment of Financial Management and Control in the Institutions of Bosnia and Herzegovina

(1) Financial management and control shall be established as a system of procedures and definition of responsibilities and competence of all persons in the institution through the issuance of internal regulations.

(2) Internal financial management and control regulations shall be based on the components referred to in Article 33b paragraph (1) of this Law, internal control, good practices and bylaws referred to in Article 33b paragraph (2) of this Law.

Article 33d

Responsibility for the Establishment and Functioning of Financial Management and Control

(1) Head of the institution shall be responsible for the establishment, development and implementation of financial management and control based on the grounds referred to in Articles 33b and 33c of this Law.

(2) Head of the institution shall be responsible for the development of internal financial management and control regulations and for the establishment of the financial management and control systems in all organisational units of the institution and in relation to all programmes and processes performed by the institution.

(3) The financial management and control system established based on the provisions of this Law must secure an audit trail for all financial and other transactions conducted within the reporting period.

(4) Head of the institution shall be responsible for the development and submission of the annual report on financial management and control to the Central Harmonisation Unit with the Ministry of Finance and Treasury in a manner and within the deadlines as defined by the bylaws

referred to in Article 33c of this Law.

Article 33e
Transfer of Authority

(1) Head of the institution may transfer his authority to persons authorised by him to establish, maintain and keep the financial management and control system updated in accordance with this Law.

(2) Regardless of transfer of authority and competence to other persons, the Head of the institution shall still be responsible for legality of operations and for reaching the goals of the institution.

Article 33f
Central Harmonisation Unit

(1) Coordination and harmonisation of the financial management and control systems in the institutions of Bosnia and Herzegovina shall fall within the competence of the Central Harmonisation Unit of the Ministry of Finance and Treasury.

(2) The Central Harmonisation Unit shall be responsible for:

a) preparation and updating of strategic documents and guidelines in the field of financial management and control, in accordance with internationally recognised standards, internal control standards, European Union practices and regulations;

b) preparation of laws and bylaws regulating the field of financial management and control in the institutions of Bosnia and Herzegovina;

c) definition of content of the training programmes and the training programme coordination in the field of financial management and control in the institutions of Bosnia and Herzegovina;

d) assessment of the financial management and control systems in the institutions of Bosnia and Herzegovina;

e) analysis and proposal of operational solutions to improve financial management and control in the institutions of Bosnia and Herzegovina;

f) prescribing the annual report form, procedures and deadlines for reporting on financial management and control systems in the institutions of Bosnia and Herzegovina;

g) monitoring the implementation of the financial management and control regulations based on the annual financial management and control reports submitted by the institutions of Bosnia and Herzegovina to the Central Harmonisation Unit of the Ministry of Finance and Treasury;

h) development of a consolidated annual report on the financial management and control system in the institutions of Bosnia and Herzegovina;

i) taking part in the work of the Coordination Board of the Central Harmonization Unit in accordance with the provisions of this Law and the Law on Internal Audit of Institutions of Bosnia and Herzegovina.

Article 33g

Taking Measures Against Irregularities and Frauds

(1) Head of the institution shall be responsible for the establishment of supervision which is to minimise the possibilities of irregularities and frauds in the institutions of Bosnia and Herzegovina.

(2) Internal auditors, persons involved in financial management and control and other persons employed within the institutions of Bosnia and Herzegovina shall be obliged to report suspected irregularities and fraud to the Head of the institution in accordance with the regulations governing employment in the institutions of Bosnia and Herzegovina, that is, to the competent body for combating irregularities and frauds in the institutions of Bosnia and Herzegovina.

(3) Submission of a report on irregularities and frauds by an employee of an institution of Bosnia and Herzegovina, related to irregularities and frauds, shall in no way whatsoever affect such person's employment status and the acquired employment-related rights, and the employee shall be guaranteed the identity protection.

(4) At the proposal of the Ministry of Finance and Treasury, the Council of Ministers shall establish a body to be responsible for coordination of the fight against irregularities and frauds in the institutions of Bosnia and Herzegovina.

(5) A document by which the body referred to in paragraph (4) of this Article shall be established, shall be based on the proposal of a regulation to be prepared by the Coordination Board of the Central Harmonization Unit, pursuant to the provisions of Article 33h. paragraph (1), subparagraph c) of this Law.

Article 33h.

Coordination Board of the Central Harmonisation Units - CHUs

(1) The Coordination Board of the Central Harmonization Unit, the composition and establishment of which have been regulated by Article 2, paragraph (13) and Article 28 of the Law on Internal Audit of Institutions of Bosnia and Herzegovina, shall also be responsible for harmonisation of regulations on financial management and control in the institutions of Bosnia and Herzegovina, Federation of BiH, the Republika Srpska and the Brčko District of BiH, that is, for the following:

a) development of framework regulations governing the field of financial management and control;

b) development of a framework financial management and control training programme;

c) proposal of regulations on the establishment, functioning and coordination of work of the bodies responsible for coordination of the fight against irregularities and frauds in the institutions of Bosnia and Herzegovina, Federation of BiH, the Republika Srpska and the Brčko District of BiH, in cooperation with the relevant bodies of the European Commission.

(2) Organisation of work and performance of administrative-technical activities for the needs of the Coordination Board of the Central Harmonization Unit shall be regulated by bylaws, pursuant to the provisions of Article 28, paragraph (2) of the Law on Internal Audit of Institutions of Bosnia and Herzegovina.

(3) Budget of the Coordination Board of the Central Harmonization Unit shall be financed in

equal shares (1/3 each) by the institutions of Bosnia and Herzegovina, Federation of BiH and the Republika Srpska, and its operational implementation shall be performed through the Central Harmonisation Unit of the Ministry of Finance and Treasury.

Article 33i

Establishment of the Financial Management and Control System

(1) The financial management and control system in the institutions of Bosnia and Herzegovina shall be established and developed against a provisional dynamic and in a manner as defined by the Strategy for the implementation of public internal financial control in the institutions of Bosnia and Herzegovina (PIFC).

(2) Priorities in the development of the framework bylaws shall be defined by the Central Harmonisation Unit of the Ministry of Finance and Treasury, taking care of the dynamics established by the Strategy for internal financial control in the institutions of Bosnia and Herzegovina and of the available material and personnel resources of the institutions of Bosnia and Herzegovina.

(3) The existing bylaws related to the establishment of financial management and control in the institutions of Bosnia and Herzegovina shall apply until the Central Harmonization Unit of the Ministry of Finance and Treasury publishes new bylaws, pursuant to the provisions of this Law.

V – Penalty Provisions

Article 34

(1) Head of the budget user, as a responsible person, shall be fined in the amount ranging from BAM 1,000 to BAM 3,000 for an offence if:

- a) a request for budget allocation fails to be submitted pursuant to Articles 7 and 9 of this Act;
- b) accounting records and auxiliary books of the budget user are not maintained in accordance with Articles 20 and 21 of this Law;
- c) three-month reports are not filed in accordance with Article 22 of this Law;
- d) documentation for updating centralised salary payments is not filed in accordance with Article 30 of this Law.

(2) Head of the budget user, as a responsible person, shall be fined in the amount ranging from BAM 5,000 to BAM 20,000 for an offence if:

- a) they act in contravention of the provisions of Article 11 of this Law;
- b) the budget user's expenditures are executed contrary to Articles 14 and 16 of this Law;
- c) cash was managed contrary to Article 29 of this Law.

Article 35

Exceptionally from penalties set forth in Article 34 of this Law, a Head of the regulatory body, as a responsible person, shall be fined in an amount ranging from BAM 1,000 to BAM 3,000 if the authority for potential appropriation has not been used in accordance with Article 9 of this Law.

Article 36

- (1) A fine in the amount ranging from BAM 50,000 to BAM 200,000 shall be imposed for an offence on the bank appearing as an investment manager if it fails to invest public funds into approved investments as defined under Article 31 of this Law or if it fails to act in accordance with the rules and procedures defined by the Ministry of Finance and Treasury.
- (2) A fine in the amount ranging from BAM 1,000 to BAM 10,000 shall be imposed on a natural person in the bank for an offence referred to in paragraph (1) of this Article.
- (3) A fine in the amount ranging from BAM 1,000 to BAM 10,000 shall be imposed on the investment manager in the capacity of an employee of the Ministry of Finance and Treasury for an offence referred to in paragraph (1) of this Article.
- (4) Exceptionally from the provisions of paragraph (3) of this Article, the investment manager may also be imposed a fine proportional to the extent of actual loss or decrease in public funds, however, it cannot exceed twenty times the amount of the loss incurred or decrease in public funds being the subject of the offence.
- (5) If an investment decision is made by a person who is not an investment manager, regardless of whether it concerns an approved investment or not, such person may therefore be imposed the same fine as specified in paragraphs (1) and (2) of this Article.
- (6) Pronouncement of the fine under this Article shall not exclude the possibility of taking additional measures by the relevant banking agency.

VI – Transitional and Final Provisions

Article 37

- (1) Within three months after this Law has entered into force, the Ministry of Finance and Treasury shall be obliged to issue an Accounting Rulebook in accordance with Article 19 of this Law and to adopt instructions, guidelines and procedures based on this Law.
- (2) Upon the entry into force of this Law, the Law on Treasury of the Institutions of Bosnia and Herzegovina (*Official Gazette of BiH*, No. 27/00) shall cease to be valid.

Article 38

This Law shall come into force on the eighth day of its publication in the “Official Gazette of BiH”.

Separate Article of the Law on Amendments to the Law on Financing the Institutions of Bosnia and Herzegovina

(“Official Gazette of BiH”, No. 38/2022)

Article 4

This Law shall enter into force on the eighth day from the date of its publication on the official website of the Office of the High Representative, or on the first day from the date of its publication in the “Official Gazette of BiH,” whichever of these dates occurs earlier.

