Republic of Serbia

Public Expenditure and Financial Accountability Assessment
Public Financial Management
Performance Report

November 2010

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Glossary

AGA	Autonomous Government Agency
ATU	Administrative Territorial Unit
BSL	Budget System Law
CFAA	Country Financial Accountability Assessment
CHU	Central Harmonisation Unit
COFOG	Classification of the Functions of Government
DBB	Direct Budget Beneficiaries
DFID	Department for International Development
DMU	Debt Management Unit
EBE	Extra Budgetary Expenditure
EC	European Commission
ECA	European Concept for Accessibility
EU	European Union
FMC	Financial Management Control
FMIS	Financial Management Information System
FRA	Fiduciary Risk Assessment
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GOS	Government of Serbia
HBS	Household Budget Survey
HDI	Human Development Index
IA	Internal Audit
IBB	Indirect Budget Beneficiaries
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISPPIA	International Standards for the Professional Practice of Internal Auditing
JSC	Joint Stock Companies (where GOM have an ownership share)
LG	Local Government
LM	Line Ministry
LTPTA	Law on Tax Procedure and Tax Administration
MDAs	Ministries, Departments and Agencies
MOF	Ministry of Finance
MSSO	Mandatory Social Security Organisations
MTEF	Medium Term Expenditure Framework
NEA	National Employment Agency
NIP	National Investment Plan
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability

PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIU	Project Implementation Unit
PPL	Public Procurement Law
PPO	Public Procurements Office
RS	Republic of Serbia
SAI	StateAudit Institution
SBRA	Serbian Business Registers Agency
SE	State Enterprise
SIDA	Swedish International Development Agency
SN	Sub National
STA	Single Treasury Account
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Programme
VAT	Value Added Tax

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Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score 2010	Score 2007
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A
PI-2	Composition of expenditure out-turn compared to original approved budget	A	C
PI-3	Aggregate revenue out-turn compared to original approved budget	C	A
PI-4	Stock and monitoring of expenditure payment arrears	B	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	B	C
PI-6	Comprehensiveness of information included in budget documentation	B	B
PI-7	Extent of unreported government operations	B+	B+
PI-8	Transparency of inter-governmental fiscal relations	B	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D+	C
PI-10	Public access to key fiscal information	A	B
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	B+	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+
PI-17	Recording and management of cash balances, debt and guarantees	A	B
PI-18	Effectiveness of payroll controls	C+	C+
PI-19	Competition, value for money and controls in procurement	B	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C
PI-21	Effectiveness of internal audit	B	C+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	A	B+
PI-23	Availability of information on resources received by service delivery units	A	B+
PI-24	Quality and timeliness of in-year budget reports	A	D
PI-25	Quality and timeliness of annual financial statements	A	D
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	C	D
PI-27	Legislative scrutiny of the annual budget law	C+	C+
PI-28	Legislative scrutiny of external audit reports	D+	D
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	D	D
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D+
D-3	Proportion of aid that is managed by use of national procedures	D	D

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of the Republic of Serbia at July 2010. The Report follows the PEFA methodology and, as such provides a direct comparison with the 2007 PEFA assessment. Serbia has now completed two PEFA assessments and the process has provided a robust platform for an assessment of progress in the PFM process since 2007.

The integrated nature of any budgeting system – from policy and planning, through expressing these policies and plans into expenditure allocations to deliver them and then controlling and recording expenditure and producing accounts to be independently audited and scrutinized – means that weakness in one element detracts from stronger aspects of other elements in the same way a chain is as strong as its weakest link.

(i) Integrated assessment of PFM performance

1. Credibility of the budget

The relationship between the expenditure outturn and budget that had been established was reasonable with aggregate outturn expenditure below that budgeted in the 2007 to 2009 period. This has been the result of a revenue shortfall emanating from the world wide economic downturn which has impacted on Serbia. Although domestic revenue was less than forecast in 2007 by 0.25% and the shortfall grew to 2.8% in 2008 and 11.35% in 2009, the cuts in expenditure averaged was 8.6% in 2007, 8.2% in 2008 and 5.6% in 2009. The decision was taken to cut down on borrowing to fund expenditure as the worsening revenue resulting from the economic down turn took hold.. Expenditure cuts have been distributed among all Line Ministries with the variances in excess of the total deviation zero in each of the three years. Although not uniform, in terms of percentages, these cuts suggest that there is a weakness in planning and priority setting. The prime objective in expenditure cuts appears to be ensuring the macro framework rather than ensuring priority service delivery.

An age profile of expenditure arrears is yet to be prepared systematically. The level of these arrears as a share of total expenditure has fallen from 7.74 percent of total expenditure in 2007 to 3.86 per cent in 2009 (although they grew from 2007 to 2008). The major source of arrears in 2007 and 2008 was related to roads which were incorporated into Public Enterprise Roads of Serbia, but these arrears were significantly eliminated in 2009 as the organisational arrangement for roads was changed to the parastatal from a government department. A loan was taken out to pay off these arrears. Mandatory Social Security Organisations' arrears in 2009 became the dominant contributor and these have shown an increasing trend from 2007. The expenditure of these organisations are responsive to economic conditions such as social benefits the demand for which increases as economic conditions worsen and are difficult to plan and forecast. Arrears of Direct Budget Beneficiaries were below 2 per cent of total expenditure in each year, which indicates that control mechanisms on planned expenditures have been effective.

2. Comprehensiveness and transparency

In Serbia, the three Mandatory Social Security Organisations (MSSOs) are responsible for pensions, health and unemployment related expenditure. They receive (mandatory) contributions based on employees' payroll, transfers from the budget and other revenues (interest, late payment penalties) and accounted for some 23 percent of the budget in 2009. They are, however, all part of the national public budget, with all operations reported on comprehensively. Local Government financial operations are also included in the budget of the Republic of Serbia. Transfers to municipalities and other units of local government, which are covered by the PEFA, are formula driven and transparent in the law. However these transfer rules have been held in abeyance due to the need to cut expenditure due to the economic downturn and are only partially applied. This is a further reflection of weakness in priority setting. Local Governments set their own budgets which are readily available for scrutiny.

Fiscal risk assessment reporting on local governments is good while it is nonexistent for public enterprises, which may well represent a significant fiscal risk.

Reporting on the budget can be carried out at the level of economic, administrative and functional classification and the budget documentation is relatively comprehensive, though lacks an explanation of the fiscal impact of policy changes. There is a good use of web based dissemination of information to the public at large.

3. **Policy-based budgeting**

The budget calendar provides sufficient time for budget preparation and deliberation by Cabinet and Parliament. Cabinet is fully involved with setting the ministerial expenditure ceilings. Macroeconomic forecasts are presented in the Budget Memorandum which is aimed at delivering predictability in the fiscal framework at the aggregate level, although this has had to be changed in supplementary budgets to reflect the economic downturn and resultant revenue shortfalls. The emerging focus on debt and its management is a significant element in improving forecasting as there is an improved and better understanding of future obligations. Nevertheless, the linkage between the annual budget document and the memorandum is not as strong as it could be. Although the MTEF in the Memorandum allows for the establishment of budget ceilings, the translation of these budgets ceilings into Line Ministry budgets that are fully reflective of a policy framework developed through sector strategies and an integration of investment and recurrent expenditures have yet to be developed. It is only when policy and planning are effectively established and translated into expenditures that reflect priorities will the Serbian MTEF reflect both the bottom up as well as the top down features of an effective and functioning MTEF. The current MTEF emphasises the top down element whereas the lack of an overall policy based budget, notwithstanding pilot programme budget in five ministries, ensures it is only a partial MTEF.

4. **Predictability and control in budget execution**

Taxes imposed at the border are collected by the Customs Administration and other taxes are administered by the Tax Administration. Customs' operation administration is centred on the use of custom built software with an effective functionality for customs control, revenue collection and audit. Business practices in the Tax administration is also software related which also allows for audit selection based on defined risk assessment criteria. Information on tax liabilities and tax education are good. However, arrears are not assessed by age and are boosted by the inclusion of uncollectable taxes which really need to be written off to make the arrears situation meaningful and manageable.

Overall tax administration in Serbia is adopting and implementing the features of a modern tax administration based on self-assessment and audit with the use of computers and appropriate software which is providing an effective vehicle for collecting revenue for funding public expenditure.

Budget execution is controlled through the setting of monthly allocation limits by economic category which are based on forecasts of available resources for that month. Budget Beneficiaries are able to carry forward an unused allocation and even borrow from future allocation (within the full annual amount) to meet seasonal demands. Periodic rebalancing of the budget ensures that commitments within a year do not exceed annual allocations. Payroll facilities are completely operated by the Treasury and in most instances personnel records as well. Payroll is well managed with good linkages between payroll and personnel records. There is a clear audit trail but a lack of effective payroll audits.

The Public Procurement Law brings public procurement in line with international standards and practices, setting clear rules regarding the implementation of public procurement procedures and cases when negotiated procedures are allowed. This has resulted in an increase in the percentage of procurement using open competition (open and restricted procedures) in 2009 compared to 2007 and 2008. 2009 saw open competition surpass 75% for the first time. Improvements have not been greater because of a lack of effective capacity (though officers have been trained to a higher standard) in the Public Procurement Office (PPO) and budget entities, whereby the efficient planning of procurements has not significantly improved. A process exists for submitting and addressing procurement complaints, but has not been modernised in line with the new law. It is designed poorly, is located within the PPO, and does not operate in a manner that provides for timely resolution of complaints. As noted under Donor Practices (D Indicators) donors do not use the Government's procurement system, but use the Deposit Insurance Agency or own processes to manage projects. However, part of the reason is the reluctance of their clients in Ministries to use their own procurement process due to its slowness which often delays donor project and that they are not delivered when needed.

Public Internal Financial Control (PIFC) is in place with the goal of moving to a modern system which harmonizes the control and audit of public resources in accordance with best international practice. There were sixty-nine annual reports on financial management and control for 2009. These reports show that 23 beneficiaries of public funds appointed managers for financial management and control, out of which 11 founded a working group for Financial Management Control (FMC). There are 32 Internal Audit units staffed with 129 auditors Internal audit is conducted in line with international internal auditing standards and regulations governing internal audit in the Republic of Serbia and covers some 76% of total expenditure. The methodology of internal audit that has been developed reflects the relevant international standards (ISPPIA) and is based on systems audits.

5. **Accounting, recording and reporting**

A Single Treasury Account is in place. The Treasury conducts reconciliations of cash balances of direct budget beneficiaries (DBB) of bank accounts and records on payment transactions in its system of payment and clearance on a daily basis. The FMIS has integrated the DBB accounts into a consolidated account of the Treasury, and the abolition of bank accounts of indirect budget beneficiaries is in the process of being integrated fully into the FMIS system. These bank accounts are managed by the Treasury and reconciled daily

Records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes on a timely and frequent basis. Financial statements are complete and comprehensive and include information on revenue and expenditure, financial assets and liabilities and a balance sheet.

6. **External scrutiny and audit**

The (independent) State Audit Institution (SAI) was established by Law in 2005, became operational in 2007 and produced its first Audit Report on 27 Nov 2009 on the Government budget. The SAI benefits from a cooperative arrangement with the Norwegian NAO until 2013. As a new organisation, this support will assist in the SAI's development.

The Republic of Serbia final accounts were audited as well as NBS operation in the part related to total public funds in 2008. The SAI also examined expenditures for 14 entities, but only partially relating to high risk topics and was included as an integral part of the final statement. The SAI reviewed aspects of expenditures in bodies responsible for approximately 50 per cent of central government expenditures in 2008. With respect to financial statements, the State Audit Institution stressed the need to observe legislation, in particular the Law on Public Procurement and the Law in the Budget System. In developing the report, International Standard Audit (ISA) 701 pertaining to modified auditor's report was used.

The Ministry of Finance submitted to the SAI the 2008 financial statements on 15 June 2009 and the SAI submitted it to the Parliament on 27 November 2009. All the partial ministerial audits were not issued as separate reports but were consolidated into the one audit report issued by the SAI. In 2010, audit reports on an individual ministry will also be submitted to Parliament along with the financial statements rather than when completed.

The scrutiny procedures for audit reports are stipulated in the Law on the State Audit Institution. It does not define a deadline for the review of the audit report by the legislative body. In the case of a modified audit report, such as that of 2008, the Committee did not review the final statement in conjunction with the auditor's report in the way prescribed by the Law, and it would have required a positive or a negative opinion to be given. Formally, the Parliament reviewed the report irrespective of the modality, within the 6 months from the date of its submission.

In line with the current regulations, the legislative body is able to propose measures resulting from the audit and review. These are implemented by the executive bodies in accordance with the existing evidence. The latest auditor's report did not contain recommendations for the legislative body to act upon, which is a clear weakness that may or may not reflect that this was the first audit report.

While the legislature did not exercise its full powers in terms of scrutiny (perhaps reflecting the first time an audit report was presented to it), the SAI itself acted upon its findings and in February 2010, took 19 responsible persons (including 11 ministers) to court based on the findings of the 2008 audit relating to misconduct relating to the operations of the BSL, public procurement regulations and budget decrees.

The law on the Budget System defines procedures for adoption of the budget and for changes in the course of the year. Procedures for adoption of the budget, and plans of mandatory social insurance organisations are strictly defined and observed. The budget memorandum is not reviewed by Parliament. However, there are no specialised reviewing panels within Parliament, which has 1.5 months to review the budget, but in effect had only less than 30 days in recent years. Clear rules exist concerning changes to the budget by the executive. There are strict guidelines with respect to the amount and nature of changes and there are observed, but do allow for considerable administrative reallocations.

7. **Donor Practices**

The vast majority of donor support is through programme and projects. Only budget support, which is relatively small and new, is conducted through the Government system. Recent release of budget support has not been timely. There are some small donor projects that use some features of the Government system, but these are managed by the Deposit Insurance Agency which itself is outside of the Government system. This arrangement reflects a lack of donor and ministry confidence in the procurement system. Financial information on donor programmes and projects is insufficient for budgeting and reporting purposes.

(ii) Assessment of the impact of PFM weaknesses

Weaknesses can be summarized as:

- Budget Planning
  - Planning and budget formulation is weak and as a result limits both allocative and technical efficiency in delivering services that reflects government policy. There is need to improve planning and budget formulation in line ministries to fully reflect policy priorities established through the MTEF. Specific attention needs to be directed at formulating costed sector strategies and improving the overall capacity to implement the investment cycle starting at the identification of project possibilities through to the selection of projects for execution linked to individual ministries' priorities. The consequence of these weaknesses are that resource allocation linked to ministerial priorities is ineffective and the centre allocates the budget as it sees fit rather than an allocation based on sectoral expertise. Transparency under these circumstances could be doubted.
- Budget Execution
  - There is a need to address the recording and management of arrears so that only collectable arrears are kept on the books which will improve fiscal sustainability as only the true picture will be considered.
  - The current procedures focus on allocation control and provide little real flexibility to amend budgets to accommodate changed circumstances which is needed to ensure expenditure on priority services.
- Budget Accounting and Controls
  - Need to fully develop a public sector internal control environment and internal audit institutions, which are based on international models. Without these, control will focus on top-down compliance and

enforcement rather than holding budget managers fully accountable for improving their organization's financial management systems and maintaining the fiscal position. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
    - Basic control on the entry into contractual arrangements is in place, but there are still arrears. Attention needs to be directed to ensuring the system now used in the FMIS does not add to arrears by allowing by-passing of the system.
    - Failure to achieve best value for money through competitive procurement practices will continue to be a high risk area and will potentially allow waste. Further capacity building will be needed over a number of years in order to develop a well functioning and effective procurement framework. The complaints process requires updating to be fully compliant with the new law.

- Budget Reporting and External Audit
    - The Single Treasury Account has the ability to produce meaningful consolidated financial reports, which fully address issues of asset management, risk, contingent liability, etc. The present focus is on straightforward budget execution reports. There is a need to organize the preparation of financial reports in accordance with evolving international financial reporting practice.
    - Need to further develop skills in financial and performance audit in accordance with modern auditing concepts, while ensuring that the basic system is in place. In addition, increased demand and scrutiny of the work of the SAI by Parliament, and media and civil society involvement will result from work which addresses topical public concerns (e.g. value for money, service delivery and thematic audits).

- External Scrutiny
    - The budget documentation is reviewed by the Finance Committee of the National Assembly and the budget is then debated and passed by the full assembly, but the time allowed is less than the two months which is considered ideal.
    - With respect to audited accounts, the elected representatives do not yet contribute to holding the executive to account. The legislature is less involved and does not have in-depth hearings on audit reports. This impacts on assessing the efficiency and effectiveness of public financial management in achieving its stated policy aims in terms of macroeconomic stability and service delivery.

(iii) Prospects for reform planning and implementation

The PEFA assessment has been produced during a significant period in the overall reform of PFM in Serbia covering:

- Budget Preparation – the continued development of the Budget Memorandum with the introduction of analysis of fiscal risk.
- Budget Execution and Accounting – the introduction of the FMIS and the STA.
- Internal Audit – the development of Public Financial Internal Control which

includes improved institutional and methodological arrangements for internal audit within Government.

- External Audit – the creation of the SAI and the production of the first audit reports.

These reforms are significant and are supported by technical assistance from a range of bilateral and multilateral donors. They continue to require continued strong leadership and coordination from Central Government as well as significant inputs from staff in all ministries which will require new skills (and consequently training) as well as commitment to implementing these changes. The challenge of fully implementing such an ambitious set of PFM reforms should not be underestimated, in particular during a period of economic downturn. These systems should be built on and strengthened.

The reforms, while substantial, do not effectively cover the full range of the PFM cycle and need to be expanded.

The PEFA assessment has pointed to weaknesses in policy and planning and as a result in budget formulation which is focused presently on aggregate expenditures rather than the distribution to spending agencies that reflects their policies and plans. Strengthening control by improving accounting systems, internal audit and internal control is important but without the expenditure being fully focused on service delivery, expenditure is limited in terms of effectiveness and efficiency. While there has been a pilot project in introducing programme budgeting to five ministries, this has not been as effective as it should be and requires not only greater involvement of the Ministry of Finance in ensuring the budget is reflective of policy and plans but also the Prime Minister’s Office and Cabinet in ensuring that there are integrated policy and plans to convert to expenditures through the budget. Such a reform can only be implemented over a number of years, but the basic building block of a budget law, a defined budget calendar, medium term resource envelop estimation and setting ceilings are in place.

iv. Key changes from 2007 to 2010.

Solid progress in the quality of PFM systems and processes has been achieved between 2007 and 2010, as measured by the PEFA methodology. This is shown in Figures 1 below.

Figure 1: Serbia: Summary Comparison of PEFA Scores 2007[1] and 2010.

Indicators Score	2010 (No.)	2007 (No.)
A	8	3
B or B+	10	9
C or C+	7	11
D or D+	6	7
No score	0	0
Improved Scores	15	-
Reduced Score	5	-
Dimension Score	2010 (No.)	2007 (No.)
A	28	12
B	23	25
C	13	22
D	10	15[2]
No score	0	0
Improved Scores	34	
Reduced Score	10	

The improvements in scoring have, in some cases arisen purely as a result of small managerial or administrative improvements, but nevertheless represent well over 50 per cent of the indicators and 50% of the dimensions. The most significant development which influenced the scores from 2007 to 2010 was the creation of the Single Treasury Account and the introduction of the FMIS, which improved the overall scores in Cash Management and Accounting Recording and Reporting. The biggest improvement in overall scoring was in quality and timeliness of in-year budget reports quality and timeliness of annual financial statements. As well, the creation of the SAI and FMC has improved scores in those areas but there are still improvements in the pipeline.

The Assessment Team noted twenty-six dimensions (eight indicators) where the scores had not changed and ten dimensions (five indicators) were reduced.

Taking each section in turn:

Credibility of the Budget

The dimensions and indictors covering credibility of budget deteriorated slightly. Budgeted expenditure in 2010 PEFA exceeded outturn expenditure considerably more than in the 2007 PEFA due to lower revenue. This reflects the economic down turn which affect not only tax and non tax revenue, but also borrowing to fund

[1] The 2007 PEFA for Serbia covered some of the period of the State Union of Serbia and Montenegro (SAM). However, only the transfer to SAM was included in the Republic of Serbia budget and that element appears not to be covered by the 2007 PEFA so 2007 and 2010 represents a like-for-like comparison.

[2] Although 4 indicators , PI-25, 26, 28 and D1, did not assess all dimensions but simply a "blanket" D score given, it is assumed for the purposes of comparison here that each dimension was marked as a D.

expenditures. All Line Ministries suffered cuts. However there has been a large reduction in expenditure arrears from 2007 to 2010 which has also impacted on the availability of revenues for non arrears expenditure.

Comprehensiveness and Transparency

There were some changes to the scores under this category. The performance of transfers to local governments deteriorated slightly even though the transparency improved as the implementation of the new Law was suspended due to the economic environment. The budget classification category improved as did the information available to the public. Assessment of fiscal risk emanating from State Owned enterprises remained weak, though the CG monitoring of the Local Government fiscal positions has improved markedly.

Policy Based Budget

Aggregate scoring for dimensions and the indicators under this grouping remained much the same with strength in developing the fiscal aggregates and the budget timetable, and improved political involvement in drawing up the budget circular, but weakness in developing sector strategies, costs and linking investment and recurrent budgets remain.

Revenue Collection and Management

The overall scores under this grouping have shown a slight upward improvement. The indicator for the overall effectiveness of the collection of tax payments (PI-15) continues to be low as there is still a problem of tax arrears with dimension (i) continuing to undermine good performance in the transfer of taxes to treasury and tax accounts reconciliation by the treasury. This can be easily addressed with a write-off strategy of arrears unlikely to be collected. Improved tax administration has resulted from improved information systems including registration, computerisation and the introduction of a more systems based approach to tax audits based on risk.

Predictability and Control in Budget Execution

This group of dimensions and indicators has shown significant improvement since 2007. The implementation of the Single Treasury Account has improved the management of cash. The creation of a Debt Unit and the legal basis behind has improved the management of public debt. The scoring of procurement improved as the percentage of contracts awarded under open competition increased. The processes underpinning the payroll function improved with the Treasury managing most of the payroll and personnel records. Finally, the introduction of the FMIS and the development of financial control and internal audit across Government have impacted positively. Only the dimension regarding the management response to Internal Audit has shown a decrease.

Accounting, Recording and Reporting

This group of dimensions and indicators showed a huge improvement from 2007 to 2010. The reason is that the introduction of the Single Treasury Account enables all transactions of the State Treasury to be accessed in real-time through the on-line account at the National Bank with reconciliations between Bank and ST records performed on a daily basis. The implementation of the FMIS has improved the generation of recording and accounting in terms of timeliness, frequency and quality.

External Scrutiny and Audit

In 2007 the Supreme Audit Institution did not exist. By 2010 it has completed the audit for 2008 and is improving the overall coverage and quality of audit that it is carrying out. By dint of the creation of the SAI, external scrutiny and audit is now a feature of the PFM system of Serbia. Scrutiny of the budget is included in the new Budget System Law (as it was in the 2002 BSL), though the time available for scrutiny has been reduced.

Donor Practices

The overall scores continue to be poor. Information flows from donors and use of government procedures is still insignificant.

Appendix 1: Links between the six dimensions of an open and orderly PFM system and the three levels of budgetary outcomes

	1. Aggregate fiscal discipline	**2. Strategic allocation of resources**	**3. Efficient service delivery**
A1 Budget credibility	*In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.*		
The budget is realistic and is implemented as intended	The budget has suffered from cuts resulting from decreased revenue fuelled by the overall declined in the world economy. The level of arrears is on the decline but is still on the high side.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
A2 Comprehensiveness and transparency	*Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.*		
The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget	Oversight of SOEs is weak and limited risk analysis, particularly contingent liabilities	All expenditures and revenue are included in the Budget. The MSSOs budgets are formulated with their respective Line Ministries who are responsible for setting policy and the levels of services provided by the Funds. Availability of information on the budget to the public and scrutiny of the budget by Parliament and its Committee provides adequate transparency.	The connection between sector strategies and budgets is limited and there is a strong emphasis on economic classification
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. However, there is little evidence that this is the case.	The budget calendar provides sufficient time for due deliberation by Cabinet to establish ministerial ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within ministries is yet to be as developed as the macro aspects of the MTEF.. The next stage of the MTEF needs to start delivering on the bottom up	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum service delivery. The abandoning of the programme budgeting initiative in 5 pilot ministries is asset back.

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
		part of the process.	
B1. Predictability and control in budget execution **The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds**	*Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.*		
	Debt management by revenue agencies needs to be addressed in terms of writing off uncollectable debt leaving the focus on what is collectable. Expenditure debt management has been addressed through the creation of the Public Debt Unit. Arrears are controlled though the commitment system in place in the IFMIS and existing arrears are being created through the social security system which reflects increasing demand due to economic downturn The execution of the budget is based on planned allocation limits that are conveyed to budget holders, but may need to be made more timely.	If Line ministries do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.	Internal audit and control focuses not only on compliance but also on improvements to overall financial management systems which contributes to improved service delivery. The complaints procedures found in modern procurement practices still need to evolve to ensure that budget agencies get value for money in the procurement of goods and services.
B2. Accounting, recording and reporting **Adequate records and information are produced, maintained**	*Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.*		
	Cash balances are maintained on a daily basis through the STA and monthly expenditure and revenue reports are produced to ensure adequate decision- making	Information on actual expenditure against budget is provided at a disaggregated level.	The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
and disseminated to meet decision-making control, management and reporting purposes	information.		
C1. Effective external scrutiny and audit	*Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.*		
Arrangements for scrutiny of public finances and follow up by executive are operating	There is scrutiny of the overall fiscal position both at cabinet and parliament level	Scrutiny though SAI is based on audits which meet international standards, but the work of the SAI is still in its infancy. Parliament needs to build capacity to fully evaluate the results of the work of the SAI.	The development of performance audits over time will assist in the development of overall service delivery, but this will take time. In the short term, a more comprehensive and rigorous programme for financial audits would be even more beneficial.

1: Introduction

Serbia has undertaken considerable PFM reform since 2000. In particular, since 2007 there have been substantial changes in the PFM framework across many areas including planning, budgeting, execution, taxation, accounting, reporting, control, accountability and review.

The government is using the PEFA to perform a stocktake of progress on PFM, to identify the results of its reform initiatives and to examine the need for - and targeting of - further reform. The new Budget System Law, enacted in July 2009, along with other measures such as those required for EU candidacy and membership, and to comply with IMF, World Bank and EU loan obligations, requires further change across the PFM spectrum. The Government is determined to address those requirements, and its other PFM reform priorities, through a systematic and holistic approach.

Serbia has been active on a variety of PFM areas and has received support from several organisations. DFID has provided support for development of planning and medium term forecasting. A major contribution has been provided by the EC in financing the implementation of a new central treasury system, integrated with the existing central payments system, and is continuing to support the development of the system and improvements to Treasury accounting and reporting. The EC also has a program for supporting the implementation of internal audit and financial management control arrangements aligned to the acquis communautaire. USAID, US Treasury, EC and GTZ have contributed to improvements in tax administration and taxation legislation. USAID, EC and the World Bank are also providing support for debt management. The IMF has provided considerable support to complement its fiscal stabilisation support, which includes a full time advisor based in the Ministry of Finance providing dedicated support to budget preparation and management. The World Bank is providing a program of budget support over three years with a strong emphasis on improving PFM across budget processes, transparency, medium term budgeting, budget comprehensiveness, asset registration, accounting and reporting, procurement, internal and external audit. Closely linked to WB and IMF programmes are EU general budget support and Macro Financial Assistance, which, besides targeting improvements in PFM, are also looking to strengthening administrative capacities for EU integration. UNDP has also helped for a decade to build the capacity and quality of public administration.

In the short-term, the PEFA assessment is to be used as baseline data, and a basis for information and monitoring so as to: (i) facilitate and update the dialogue on PFM between Government and donors; (ii) *help* donors assess the eligibility of a country for budget support programmes, or to verify whether general or specific PFM conditions of an ongoing budget support programme are met.

In the medium-term, the PEFA assessment may feed the reflection on: (i) the preparation or revision of a PFM reform strategy (and related action plan); (ii) the preparation or revision of a PFM capacity development programme, in coordination with the government.

A key strength of the PEFA assessment framework is that it offers a holistic assessment of the 'health' of the PFM system and highlights areas where attention is most/least needed. This provides a starting point for developing a comprehensive reform strategy, as well as a baseline for assessing changes over time. It can also be a useful guide to the donor community on how to improve their engagement with the country and where to target support for PFM.

The process for producing the 2010 PEFA Report for Serbia has been a self-assessment with consultancy support. There was a two day training workshop for those involved in the self-assessment using the training materials developed by the PEFA Secretariat.

A draft final report has been produced as a result. Following comments by Government, the

PEFA Secretariat and Donors (World Bank, DFID, EC) for quality assurance purposes, a final report has been produced and will be presented at a workshop. [3]

In Serbia, public finances cover the Central Government[4], Local Government and three Mandatory Social Security Organizations (MSSOs) which include the: (i) Republic Health Insurance Institute; (ii) Republic Pension and Disability Insurance Funds (including the funds for the employees, farmers and entrepreneurs); and (iii) Republic Labour Market Office. The report identifies the share of public expenditures that is made by each of these budgets (funds). The analysis of PFM for the most part focuses on central government, but where there are areas of overlap, the other agencies are included in the analysis. In the appropriate indicators, it has been possible to include an analysis of the contribution of the MSSOs. Detailed review and analysis of expenditure implemented by local governments are not carried out. However, the operation of transfers from the centre to local government is examined in line with the PEFA guidelines.

There are 62 Central Government direct budget entities including 24 Ministries. Dependent agencies are included as part of these ministries. Local Government is comprised of 23 cities and 122 municipalities as well as the Autonomous Province of Vojvodina. Local governments perform several distinct categories of functions and are responsible for implementation of legislation, and financing of nonwage spending on primary and secondary levels of education; implementation of legislation on social assistance, infrastructure services including: (a) urban water supply and sewerage (b) district heating (c) refuse collection and disposal, (d) street cleaning and (e) public transport (mainly in larger jurisdictions) and other specific services including communal services, culture, sports, and the environment.

The relative sizes of the various components of the national public budget are

Table 1: Serbia: Structure of the Public Sector

As % of Total Expenditure	2005	2006	2007	2008	2009
Total Expenditure	100.00	100.00	100.00	100.00	100.00
Republic Budget	60.00	57.57	56.42	54.89	56.35
o/w Transfers to LG	**11.03**	**6.61**	**5.26**	**5.53**	**4.45**
o/w Transfers to MSSOs	14.25	14.07	13.47	14.04	19.82
Net	**34.71**	**36.89**	**37.89**	**35.32**	**32.07**
Local Government	13.56	14.50	15.16	14.04	13.14
Vojvodina	2.76	2.77	2.95	3.83	3.79
MSSOs	**48.97**	**45.84**	**44.00**	**46.81**	**51.00**
Pension	32.41	30.92	28.42	31.06	34.97
Health	14.02	12.58	13.26	13.19	13.36
Employment	2.30	2.35	2.53	2.34	2.67
Covered by PEFA	**94.71**	**89.34**	**87.16**	**87.66**	**87.53**

Source: Economic Bulletin, Ministry of Finance

Some eighty-eight percent of public expenditure in Serbia (2009) has been subjected to the PEFA assessment methodology in the 2010 PEFA.

[3] The team comprised John Short and Paul Harnett (REPIM www.repim.org.uk) and Sinisa Jovanovic. DFID provided financial support for the PEFA. The first visit of the consultants to Serbia took place between 14th and 19th June 2010. A second mission took place on 5th to 23rd July 2010 to discuss the results of the self assessment on indicators and fill in information gaps. Dissemination workshops were held on 24th and 26th November 2010.

[4] This includes transfers from Government to public enterprises. Public enterprises as an entity are not covered in the PEFA apart from fiscal risk issues (PI-9 (i)). Thus revenues and expenditures of public enterprises are not covered such as the Road Fund which PE Roads collects. Any transfers from the Ministry of Transport to PE Roads would be included under Central Government

2: Country Background Information

2.1: Description of the Country Economic Situation

The population of Serbia is in the region of 7.291 million people[5]. According to the Living Standards Measurement Study Serbia 2002-2007[6], Serbia's rapid economic growth over the study period has reduced poverty levels significantly -from 13.4 percent in 2002 to 6.6 percent in 2007. Nevertheless, vulnerable groups still exist[7].

An examination of the Human Development Index (HDI) which is a summary measure of three dimensions of human development: leading a long and healthy life (measured by life expectancy at birth); being knowledgeable (measured by literacy and school enrolment); and having a decent standard of living (measured by GDP per capita) shows Serbia ranked 67 out of the 182 countries scored with a HDI index of 0.829 in 2007[8]. Serbia falls in the High Human Development category

Table 2 presents the basic macro economic and fiscal indicators for Serbia.

From 2001 to 2008, Serbia's GDP in real prices grew on an annual basis ranging between 2.4 percent in 2003 to 8.3 per cent the following year. However, 2009 saw a fall of 3.0 percent as the global economic decline impacted on the domestic economy. Projections for 2010 indicate a reversal of this decline with a positive growth rate of 1.5 per cent. With slightly falling population levels, per capita income has also grown in Dinar terms, with still positive growth but less so in euro terms as the dinar has depreciated against the euro. Economic growth has been mostly generated by construction and services (particularly telecommunications) with a smaller contribution from industry. Agriculture growth rates have been negative in most years from 2001 to 2007 with the exception of 2004 (19.5% increase), but were positive in 2008 and 2009.

From a high of some 90 per cent in 2001, inflation (as measured by retail prices, period average) has been brought under control falling to single digits (6.8 per cent) in 2007, before increasing to 10.9 per cent the following year and dropping back to 8.4 per cent in 2009 with the declining rate continuing into 2010.

Serbia's current account deficit as a percentage of GDP has been on an upward trend since 2001 when it was 7.6 per cent of GDP to 18.7 percent of GDP in 2008, but it fell back sharply in 2009 to 6.2 per cent of GDP reflecting the faster fall-off in imports than exports as economic conditions deteriorated. The balance of payments was positive in all years except 2008 reflecting the size of financial inflows including remittances. Foreign net direct investment was €184 million in 2001 and was on an upward trend to 2006 peaking at €3,323 million before falling back to €1,373 million in 2009. External debt has shown an upward trend in euro terms but as a percentage of GDP has fallen from 98.3 per cent in 2001 to a low of 54.5 in 2004 before increasing to 65.2 percent in 2008 and 72.3 percent in 2009. Gross domestic fixed capital formation has been on a steady upward trend reaching 24 per cent of

[5] Revised Memorandum on the Budget and Economic and Fiscal Policy for the year 2010 with projection for the years 2011 and 2012. The last census was in 2002.

[6] Reported in Serbia: Doing More with Less Addressing the Fiscal Crisis By Increasing Public Sector Productivity World Bank June 16 2009.

[7] The most vulnerable population comprised the residents of the rural parts of South East Serbia, persons with low education levels and the unemployed, elderly (over 65), as well as households with two or more small children (0-6). Also senior citizens in rural communities, children, Roma, refugees and internally displaced persons (IDPs) and persons with disabilities were especially vulnerable grown-ups in Serbia in terms of poverty and social exclusion. Gorana Krstić and Mihail Arandarenko Impact of the Economic Crisis on Vulnerable Groups in Serbia's Labor Market in Quarterly Monitor of Economic Trends and Policies in Serbia Issue 20 January–March 2010 Belgrade, June 2010

[8] Norway was ranked first with a HDI of 0.971 and Niger 182nd with an HDI of 0.34. UNDP Human Development Report 2009.

GDP in 2007 and 23.2 per cent in 2008. Foreign exchange reserves, foreign currency savings and dinar savings have all shown an upward trend since 2001.

The employment level declined from 2.1 million in 2001 to 1.9 million in 2009. However, unemployment levels also declined from 2005 with 896,000 being unemployed (a rate of 21.8 per cent) to 728,000 in 2008 (a rate of 14.4 per cent) and 730,000 in 2009 (a rate of 14.4 per cent in 2009). Both net and gross salaries grew in real terms from 2001 to 2008 in each year, but on a declining trend from 30 percent in 2002 to 3.9 per cent in 2008[9]. The indication is that these decreased by just over 3 per cent in 2009. Pension benefits also grew in real terms in each year on a declining trends (part from 2008 when they increased by 14.2 per cent) with 3.3 per cent increase in 2009.

[9] A new methodology for measuring salaries was introduced in 2009 so the annual change has not been extended to 2009.

Table 2. Basic macroeconomic and fiscal indicators

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross domestic product, current prices, in bl dinars	762.2	972.6	1,125.8	1,380.7	1,683.5	1,962.1	2,302.2	2,722.5	2.953,5[1]
Gross domestic product, in millions EUR	12,820.9	16,028.4	17,305.9	19,026.2	20,305.6	23,304.9	28,784.6	33,417.9	31.511[1]
Gross domestic product, per capita, EUR	1,708.7	2,137.1	2,313.4	2,549.4	2,729.0	3,144.4	3,899.5	4,546.5	4.304[1]
Gross domestic product, real growth, in %	5.6	3.9	2.4	8.3	5.6	5.2	6.9	5.5	-3.0[2]
Economy, growth rates									
Industrial production, physical scope	0.1	1.8	-3.0	7.1	0.8	4.7	3.7	1.1	-12.1
Agriculture, physical scope	18.6	-3.4	-7.2	19.5	-5.3	-0.3	-8.1	9.0	2,5[3]
Forestry, physical scope	-17.6	6.9	5.6	3.1	-2.2	6.1	-4,2	13,9	-9.0[3]
Construction									
- value of construction works, constant prices	-13.1	76.8	19.7	31.3	13.7	10,9	18,9	4,3[1]	-26,3
Transport, volume of services	9.6	6.9	5.0	4.7	4.4	5,9	6,9	0.4	-14,7
Post activities and telecommunications, volume of services	25.1	3.6	24.1	26.8	34.1	75,1	43,4	39,0	28,5
Turnover in retail trade, real terms	19.8	23.9	13.8	18.0	26.5	7.7	23.0	6,6	-12.3
Tourism, overnight stays	-6.5	0.2	-7.3	-0.6	-2.2	1.4	11.2	0,1	-7.8
Prices, growth rates									
Retail prices, end of period[8]	40,7	14,8	7,8	13,7	17,7	6,6	10.1	6.8	6.6
Retail prices, period average[9]	91,8	19,5	11,7	10,1	16,5	12,7	6.8	10.9	8.4
Producers prices of manufactured goods, period average	87.7	8.8	4.6	9.1	14,2	13,3	5.9	12,4	5,6
Cost of living, period average	93.3	16.6	9.9	11.4	16,2	11,7	7.0	13.5	8.6
Foreign trade, in million EUR[2]									
Export of goods	1,922.2	2,201.7	2,442.4	2,831.6	3,608.3	5,102.5	6,432.2	7,428.3	5,961.6
European Union	892.4	960.7	1,202.3	1,456.5	2,117.6	2,942.9	3,602.7	4,028.4	3,195.7
Import of goods	4,759.2	5,956.8	6,589.3	8,623.3	8,439.2	10,462.6	13,506.8	15,494.5	11,157.3
Capital goods[3]	-	-	1,779.4	2,495.3	1,971.6	2,429.8	3,495.9	3,829.8	2,664.5
Intermediate good[3]	-	-	2,251.9	2,830.6	3,027.6	3,781.4	4,892.1	5,271.3	3,804.2
Foreign trade deficit	-2,837.0	-3,755.1	-4,146.9	-5,791.7	-4,830.9	-5,360.1	-7,074.5	-8,066.1	-5,195.6
Current account deficit (excluding donations)[4,5]	-977.2	-1,838.4	-1,671.5	-2,659.9	-2,068.2	-3,322.8	-4,780.9	-6,251.7	-1,940.8
Current account deficit (excluding donations), as % of GDP	-7.6	-11.5	-9.7	-14.0	-10.2	-14.3	-16.6	-18.7	-6.2
Balance of payments, total[4,5]	562	996	827	343	1,647	4,269	742	-1,687	2,363.5
Foreign direct investments, net, in million EUR	184	500	1,194	774	1,250	3,323	1,821	1,824	1,372.5
External debt, in million EUR, end of period	12,608.8	10,765.9	10,858.4	10,354.7	13,064.3	14,885.4	17,789.0	21,801.0	22,787.0
External debt as % of GDP, end of period	98.3	67.2	62.7	54.4	64.3	63.9	61.8	65.2	72.3
Gross fixed capital formation									
Gross fixed capital formation, in billion dinars	81.3	120.5	188.9	265.7	319.9	412.8	552.3	632.4	
Gross fixed capital formation as a % of GDP	10.7	12.4	16.8	19.2	19.0	21.0	24.0	23.2	
Monetary and Foreign Exchange Indicators, end of period									

Dinar reserve money, in million dinars	41,643	69,543	72,267	82,383	100,341	143,409	169,020	319,781	254,268
Money supply M1, in million dinars	58,233	93,815	99,303	111,258	144,949	200,090	248,873	240,744	258,442
Money supply M3, in million dinars	125,414	191,491	244,731	322,876	458,870	634,470	903,871	992,151	1,203,981
Total domestic credit of banks, in million dinars	263,640	171,873	228,429	334,850	509,379	594,336	827,297	1,117,196	1,298,969
Economic organizations	246,887	151,626	195,442	264,177	370,391	380,395	506,991	708,882	849,207
Households	5,277	16,139	29,333	66,356	131,860	203,318	305,457	381,919	418,317
Foreign exchange reserves of NBS, in million EUR	1,325	2,208	2,854	3,131	4,952	9,041	9,660	8,190	10,602
Key policy rate	-	-	-	-	-	14.00	10.00	17.75	9.50
Value of EUR against dinar	59.7	61.5	68.3	78.9	85.5	79.0	79.2	88,60	95.89
Foreign currency savings, million EUR, end of period	329.8	754.6	1,037.8	1,424.8	2,238.7	3,346.1	4,903.1	4,775.3	6,013.7
Dinar savings, million EUR, end of period	-	41.5	48.9	36.3	35.6	67.0	125.4	105,6	118.5
Employment, salaries and pension benefits									
Employment level, average (thousands)	2,102	2,067	2,041	2,051	2,069	2,026	2,002	1,999	1,889
Unemployment level, end of period (thousands)	-	-	-	-	896	916	785	728	730
Unemployment rate, ILO definition				19.5	21.8	21.6	18.8	14,4	16,9
Net salaries, period average, in dinars	6,078	9,208	11,500	14,108	17,443	21,707	27,759	32,746	31,733
- real growth rates	16.5	29.9	13.6	10.1	6.4	11.4	19.5	3.9	-3.1
Gross salaries, period average, in dinars	8,691	13,260	16,612	20,555	25,514	31,745	38,744	45,674	44,147
- real growth rates	16.0	30.0	14.0	11.1	6.8	11.4	14.1	3.9	-3.3
Pension benefits, period average, in dinars	4,505	6,134	7,393	8,725	10,568	12,151	13,612	17,660	19,788
- real growth rates	17.9	16.8	9.7	5.9	4.2	2.9	4.7	14.2	3.3
Privatization proceeds socially owned enterprises and financial organisations, in million EUR		318.8	839.8	153.6	372.4	264.3	374.2	230.4	80.6

Source: Ministry of Finance using data from RSO, NBS, NEA and EPF, Agency for Privatization
[1] MFO estimation, Revised Memorandum on the budget and economic and fiscal policy for the year 2010, with projections for 2011 and 2012. [2] RSO estimation. [3] Index shall be accounted according to the data compiled for producer's price index for industrial products in domestic market and producer's export price index for industrial products. [4] GFS-1986 methodology. [5] RSO corrected the data on the number of private entrepreneurs and employed by them from March 2009, inter alia, because of regulation of evidence of Republic institute for health insurance. [6] Labour force survey - October 2009. [7] New methodologies for salaries, applied from 2009 as RSO extended coverage of observation units. In calculation of average salaries, beside salaries paid to employees in enterprises, institutions and organizations, into account are taken also salaries paid to entrepreneurs. [8] Consumer prices, end of period 2009. [9] Consumer prices, period average 2009

Overall government reform programme and rationale for PFM reforms

The driving force for overall reform and PFM reform in particular is adhering to good international practice, but also in the context of the standards and requirements to meet European Accession. The SIGMA report indicates that a clear strategy for financial management system reform still needs to be developed and approved, putting an emphasis (among other issues) on clarifying the roles and responsibilities of the various stakeholders in the financial management process and on creating proper co-operation mechanisms. Emphasis should be placed on setting effective co-ordination mechanisms within the administration so as to avoid duplication of activities and to ensure the setting of clear responsibilities.[10]

The PEFA assessment is to be used as baseline data to assist in this process. It is intended to provide a basis for information and monitoring to facilitate and update the dialogue on PFMt and assist in the preparation or revision of a PFM reform strategy (and related action plan) as well as a PFM capacity development programme.

[10] Sigma Assessment Serbia Public Expenditure Management System May 2009

2.2: Budgetary Outcomes

Table 3 presents the consolidated budget and fiscal position in Serbia from 2005 to 2009.

Table 3. Consolidated General Government

in mil. Dinars	**2005**	**2006**	**2007**	**2008**	**2009**
I PUBLIC REVENUES	**724,527**	**867,682**	**1,002,047**	**1,143,438**	**1,146,510**
1. Current revenues	721,509	865,526	995,415	1,140,370	1,139,849
1.1.Tax revenues	637,913	755,969	870,036	1,000,368	1,000,321
Personal income tax	94,283	118,591	115,772	136,451	133,482
Corporate income tax	10,308	18,313	29,686	39,007	31,213
Value added tax	215,939	225,137	265,465	301,690	296,927
Excises	71,275	86,850	98,601	110,137	134,781
Customs	38,965	45,375	57,381	64,784	48,040
Other tax revenue	24,192	30,283	32,820	35,568	37,072
Social contributions	182,952	231,420	270,311	312,732	318,806
1.2.Non-tax revenue	83,596	109,558	125,379	140,002	139,528
2. Capital revenues	160	277	5,330	1,538	187
3. Grants	2,857	1,878	1,302	1,530	6,473
Total as % of GDP	43.0	44.2	43.5	42.0	38.8
II PUBLIC EXPENDITURES	**706,844**	**899,287**	**1,046,848**	**1,213,889**	**1,267,905**
1. Current expenditures	653,189	807,018	919,454	1,088,803	1,154,156
Expenditure for employees	170,016	204,398	238,325	293,133	301,846
Purchase of goods and services	107,218	135,874	168,130	181,075	186,412
Interest payment	17,659	30,211	17,894	16,324	22,378
Subsidies	54,880	55,555	63,698	77,984	63,076
Social assistance and insurance	285,650	360,442	409,284	496,805	555,632
of which: pensions	*186,115*	*227,735*	*259,858*	*331,028*	*387,306*
Other current expenditure	17,766	20,539	22,123	23,481	24,812
2. Capital expenditures	45,866	81,337	112,061	105,906	93,271
3. Net lending	7,789	10,932	15,334	19,179	20,478
Total as % of GDP	42.0	45.8	45.5	44.6	42.9
III CONSOLIDATED BALANCE (I - II)	**17,683**	**-31,605**	**-44,801**	**-70,451**	**-121,395**
As % of GDP	1.1	-1.6	-1.9	-2.6	-4.1

Source Ministry of Finance Bulletin Public Finance

Although the expenditures have risen annually in nominal terms, expenditures have declined annually as a share of GDP to reach 42.9 percent in 2009 after having grown from 42 per cent of GDP in 2005 to 45.8 per cent of GDP a year later. Revenues also grew annually in nominal terms every year and as per cent of GDP from 43 per cent in 2005 to 44.2 per cent in 2006 and then declined annually to 38.8 per cent in 2009. The combined effect of revenues and expenditures has been that Serbia has moved from a budget surplus of 1.1 percent of GDP in 2005 to an annually increasing budget deficit reaching 4.1 per cent of GDP in 2009.

Table 4 presents an analysis of revenue.

Table 4. Consolidated General Government Revenue					
As % of Total	**2005**	**2006**	**2007**	**2008**	**2009**
PUBLIC REVENUES	100.0	100.0	100.0	100.0	100.0
1. Current revenues	99.6	99.8	99.3	99.7	99.4
1.1.Tax revenues	88.0	87.1	86.8	87.5	87.2
Personal income tax	13.0	13.7	11.6	11.9	11.6
Corporate income tax	1.4	2.1	3.0	3.4	2.7
Value added tax	29.8	25.9	26.5	26.4	25.9
Excises	9.8	10.0	9.8	9.6	11.8
Customs	5.4	5.2	5.7	5.7	4.2
Other tax revenue	3.3	3.5	3.3	3.1	3.2
Social contributions	25.3	26.7	27.0	27.4	27.8
1.2.Non-tax revenue	11.5	12.6	12.5	12.2	12.2
2. Capital revenues	0.0	0.0	0.5	0.1	0.0
3. Grants	0.4	0.2	0.1	0.1	0.6

The salient features of Table 4 are

- Tax revenues represent some 88 per cent of total revenue. Within tax revenues
    - Value Added Tax was the single most important contributor to revenues in 2005 though its importance has been reduced to 26 per cent in relative size after 2005.
    - Social contributions became the single most important element of revenue collection in 2006 and has been on an increasing trend since 2005
    - Personal Income tax is the third most important revenue contributor, but has also declined in relative share since 2005.
    - Excises, the fourth most important, have increased in relative share from 2005 to 2009.
    - Corporate income tax though relatively small has shown an increasing trend in relative share to 2008 but a sharp fall-off in 2009
- Non tax revenues range between 11.5 and 12.6 per cent of total revenues and in 2008 and 2009 have been 12.2 per cent of the total revenues.

Table 5 presents expenditure by economic category.

The salient features of Table 5 are:

- Current expenditures represent on average around 90 per cent of total expenditure, from 87.8 per cent in 2007 and 92.4 per cent in 2005, with capital expenditure ranging from 6.5 per cent of the total in 2005 to 10.7 per cent in 2007, and net lending between 1.1 and 1.6 per cent of the total.
- Within current expenditure, expenditure on social assistance and insurance consumes some 40 per cent of total spending reaching 43.8 per cent in 2009. Within this category, expenditure on pensions is the dominant element reaching 30.5 per cent of total spending in 2009.
- Expenditure on employees peaked in 2005 and 2008 at 24.1 per cent of the total while purchases of goods and services have declined from 16.1 per cent of the total in 2007 to 14.7 per cent in 2009.

- Subsidies have shown a downward trend from 7.8 per cent in 2005 to 5 per cent in 2009.
- Interest payments have fluctuated and reaching 1.3 per cent of the total in 2008 from a peak of 3.4 per cent of the total in 2006. Interest payments in 2009 was 1.8 per cent of total expenditures.

Table 5. Consolidated General Government Expenditure					
As % of Total	**2005**	**2006**	**2007**	**2008**	**2009**
PUBLIC EXPENDITURES	100.0	100.0	100.0	100.0	100.0
1. Current expenditures	92.4	89.7	87.8	89.7	91.0
Expenditure for employees	24.1	22.7	22.8	24.1	23.8
Purchase of goods and services	15.2	15.1	16.1	14.9	14.7
Interest payment	2.5	3.4	1.7	1.3	1.8
Subsidies	7.8	6.2	6.1	6.4	5.0
Social assistance and insurance	40.4	40.1	39.1	40.9	43.8
of which: pensions	26.3	25.3	24.8	27.3	30.5
Other current expenditure	2.5	2.3	2.1	1.9	2.0
2. Capital expenditures	6.5	9.0	10.7	8.7	7.4
3. Net lending	1.1	1.2	1.5	1.6	1.6

Table 6 presents Government expenditure by Function.

Table 6. Consolidated General Government Expenditure by Function					
As % of GDP	2005	2006	2007	2008	2009
General public services	4.2	5.3	4.2	4.3	3.8
Defence	2.4	2.4	2.5	2.3	2.3
Public order and security	2.3	2.5	2.5	2.3	2.1
Economic affairs	5.5	5.9	6.6	6.3	5.4
Environment protection	0.2	0.3	0.3	0.3	0.3
Housing and community	1.5	2.0	1.8	1.6	1.6
Health	5.7	5.9	6.6	5.9	5.9
Recreation, sports, culture and religion	1.0	1.0	1.0	1.0	0.8
Education	3.5	3.8	3.8	3.9	3.7
Social welfare	15.6	16.1	16.3	16.8	18.1

Source: Macroeconomic and Fiscal Analyses and Projections Department

The salient features of Tables 6 are

- Social Welfare spending is the dominant function by a significant amount and increasing.

Costs are high, due in part to generous benefits. The pension due to a new retiree in Serbia is equal to nearly 60 percent of the net average wage. Average retirement ages are lower than in most Organization for Economic Cooperation and Development (OECD) countries, and years of contribution shorter. Pension costs are also driven up by demographics. Due to its low birth rate, Serbia has a large number of beneficiaries relative to the number of contributing workers. As a short term response to the fiscal crisis, the Government froze pension levels in nominal terms in 2009 and 2010. As a share of GDP (less than 2 per cent), social welfare expenditure (excluding pensions) is lower than the average spending in the OECD (2.5 percent, 2006) and in the EU countries (2.5 percent, 2006), and comparable with the spending of ECA countries with similar level of economic development.[11]

- Spending on Health[12] and Economic Affairs are similar in size and represent the next important spending functions.
- General Public Services (on a declining trend since 2006), Education[13], Public Order and Security and Defence follow in relative importance.

Conclusion

The strong economic performance of the economy of Serbia up to 2008 is reflected in these budgetary outcomes where a combination of policy and the economic base has generated both revenue and expenditure to GDP ratios in excess of 42 per cent. However, the emerging world economic crisis has impacted on revenue performance with a significant drop in 2009 which has triggered a smaller reduction in expenditure that has led to the widening budget deficit. The fall-off in VAT and Customs has reflected the decline in imports resulting from the downturn in the economy. Expenditure adjustment has been many in subsidies and capital expenditure, but non discretionary expenditure on interest payments have risen reflecting increased borrowing. Pension costs have also increased.

2.3: Legal and Institutional Framework for PFM

The Constitution is the supreme law of the country. A new Constitution of the Republic of Serbia was adopted by the National Assembly of the Republic of Serbia at its first special session in 2006 held on 30 September and was endorsed by a referendum held on 28th and 29th October 2006. Part 3 section 2 articles 91 (Taxes), 92 (Budget), 93 (Public Debt), 94 (Balanced Development), 95 (National Bank of Serbia) and 96 (State Audit Institution) provide reference to Public Finances and the Law. Part 4 covering Competences of the Republic of Serbia has as number 11 "control of legality of managing resources of legal entities; financial audit of public finances; collection of statistical and other data of public interest".

The Constitution also makes provision for local government (including municipalities and autonomous provinces).

Under the Constitution, the National Assembly is the supreme representative body and holder of constitutional and legislative power in the Republic of Serbia to.

1. adopt and amend the Constitution,
2. decide on changes concerning borders of the Republic of Serbia,
3. call for the Republic referendum,
4. ratify international contracts when the obligation of their ratification is stipulated by the Law,
5. decide on war and peace and declare state of war and emergency,
6. supervise the work of security services,
7. enact laws and other general acts within the competence of the Republic of Serbia,
8. give previous approval for the Statute of the autonomous province,
9. adopt defence strategy,
10. adopt development plan and spatial plan,
11. adopt the Budget and financial statement of the Republic of Serbia, upon the

[11] Serbia: Doing More with Less Addressing the Fiscal Crisis By Increasing Public Sector Productivity World Bank June 16 2009.

[12] As a percent of GDP, Serbia's current aggregate level of health care spending (including both private and public spending) is somewhat higher than that of the recent EU member states but below that of the older members (World Bank op. cit.).

[13] As a percent of GDP, the level of government spending on education in Serbia is comparable to other European countries (World Bank op. cit.).

proposal of the Government,
12. grant amnesty for criminal offences.

Within its election rights, the National Assembly has the authority to

1. elect the Government, supervise its work and decide on expiry of the term of office of the Government and ministers,
2. appoint and dismiss judges of the Constitutional Court,
3. appoint the President of the Supreme Court of Cassation, presidents of courts, Republic Public Prosecutor, public prosecutors, judges and deputy public prosecutors, in accordance with the Constitution,
4. appoint and dismiss the Governor of the National Bank of Serbia and supervise his/her work,
5. appoint and dismiss the Civic Defender and supervise his/her work,
6. appoint and dismiss other officials stipulated by the Law.

The National Assembly shall also perform other functions stipulated by the Constitution and Law.

In addition to the Constitution, the relevant legal framework for PFM is the Budget System Law (BSL) of 2009 ("Official Gazette of the Republic of Serbia", No. 54/09) which replaced 1) Budget System Law ("Official Gazette RS" No. 9/02, 87/02, 61/05 –other law, 66/05, 101/05 – other law, 62/06 – other law, and 85/06); and 2) Law on Public Revenues and Expenditures ("Official Gazette RS" No.76/91, 41/92 - other law, 18/93, 22/93 - revised, 37/93, 67/93, 45/94, 42/98, 54/99, 22/01, 9/02 - other law, 87/02 - other law, 33/04, and 135/04 - other law). This Law regulates: planning, preparation, adoption and execution of the budget of the Republic of Serbia; planning, preparation, adoption and execution of the budget of autonomous provinces and local self government units (local government budget); preparation and adoption of financial plans of the Republican Fund for Pension and Disability Insurance, the Republican Office for Health Insurance and National Employment Service (organizations for mandatory social insurance); budget accounting and reporting, financial management, control and audit of public funds beneficiaries, beneficiaries of the budget of the Republic of Serbia, beneficiaries of the local government budget, and financial plans of organizations for mandatory social insurance; scope of work and organization of the Treasury, as an authority within the Ministry of Finance and local government treasury, and other issues relevant for the functioning of the budget system. The Budget System Law provides for a calendar for budget formulation, accounting and reporting.

The new Budget System Law introduced a mid-term framework of expenditures and public investments, three-year budget and fiscal risk assessment alongside the annual budget. The rational for these changes is to improve mid-term planning through the introduction of a mid-term framework for expenditures in the national budget in order to increase the predictability of public finance for budget beneficiaries, while at the same time preventing cyclical expansion of current expenditures. The mid-term framework is also introduced in investment planning as a necessary condition in the process of defining strategic development projects. In addition, the new Budget Systems Law is designed for creating conditions for using development aid of the European Union and Serbia's obligation to manage the funds of the European Union.

In 2010, the Budget System Law is to be further broadened with provisions relating to the definition of fiscal responsibility and strengthening of fiscal discipline in order to ensure sustainability of public finance in the mid-term.

The Public Debt Law of 2005 provided for the establishment of a Public Debt Management Administration (PDMA) within the Ministry of Finance to conduct public debt borrowing, manage debt risk reduction, prepare debt management strategies, monitor and analyze conditions and changes in the domestic debt market, monitor local government borrowing and beneficiaries of government loan guarantees, and similar operations. A new Law in 2009 strengthened the administrative capacity and created a separate Public Debt Unit

(Administration) which came into being in October 2009.

With respect to Local Government, the relevant law is the Law on Local Government Finance enacted on January 1, 2007. It stipulates local government taxation and charges, shared taxes and charges (with central government) and how transfers from central government to local government is determined and regulated.

The Ministry of Finance (under the authority of the Minister) manages the budget preparation process which includes determining the macro framework, preparing the Memorandum on the Budget, holding budget hearings and preparing the annual budget for presentation to Parliament. The Ministry of Finance liaises with MDAs and Local Governments with respect to the budget preparation process. The Treasury manages cash resources, budget execution, the payroll, accounting and reporting thought the Consolidated Treasury Account System and FMIS. Internal financial control is implemented though financial management and control in the beneficiaries and internal audit in beneficiaries with harmonization managed and performed by the Ministry of Finance – Central Harmonization Unit. As well the Ministry of Finance conducts budget inspection under the BSL. Annual financial statement of the Republic of Serbia and annual financial statements of the organizations for mandatory social insurance are subject to external audit, in compliance with the provisions of the law regulating the jurisdiction the Supreme Audit Institution.

The primary source of Serbian public procurement law is the Law on Public Procurement (Official Gazette of RS, br. 39/2002, 43/2003, 55/2004, 101/2005) (“PPL”). The PPL provides conditions and procedures of procurement of goods and services in cases when the contracting authority is a state or a public institution. Application of the PPL is supervised by the Public Procurement Agency

The assessment and collection of taxes is administered by two agencies under the Ministry of Finance - Tax Administration and Customs Administration. Each tax has its own guiding legal framework of laws (such the Value Added Tax law, which was published in “The Official Gazette of RS” No. 84/04, 86/04 and 61/05 and Customs Tariff Law "Official Gazette of the Republic of Serbia", No.61 /2007 "Official Gazette of the Republic of Serbia", No. 5/2009 "Official Gazette of the Republic of Serbia", No. 33/2009), regulations, decrees and bye-laws.

The State Audit Institution is regulated by the Law on State Audit Institution (Official Gazette of RS”, br. 101/2005, 54/2007).

The PFM reform agenda is led by the Minister of Finance with support from the Prime Minister. There is significant support for PFM reforms from the IMF and World Bank, EC and various bilateral partners including UK DFID and Sweden (SIDA).

3: Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget

Aggregate budgeted and outturn expenditure is presented below for 2007, 2008 and 2009 covering aggregate Government expenditure. Included are the expenditures of the MSSOs. In each of the years, outturn is below budgeted expenditure.

Aggregate Government Expenditure
(excluding debt servicing and donor funded projects) RS D million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	626,040.8	572,513.9	-53,526.9	8.6%
2008	731,467.7	671,207.6	-60,260.1	8.2%
2009	755,221.0	713,225.8	-41,995.2	5.6%

Source Treasury Budget Execution Department

A Score of B is therefore appropriate which shows a decline from the 2007 PEFA A score.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved b	Score B (i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.

PI-2. Composition of expenditure out-turn compared to original approved budget

This indicator measures the extent to which reallocations have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of the organisational classification, using the absolute value of deviation.

The budgeted and actual expenditure data and the variances in PI-1 above are as follows

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2007	8.6%	8.6%	0.00
2008	8.2%	8.2%	0.00
2009	5.6%	5.6%	0.00

The variances in excess of the total deviation have been zero in each of the 3 years as all budget beneficiaries budget has been cut or have had no changes made (i.e. there has been no additions to the original budget). This gives a score of A. These have been derived from the budget beneficiary expenditure information shown below. Recurrent and capital expenditure are included in the calculation.

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score A (i). Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.

RS D million	2007				
Administrative	budget	actual	difference	absolute	percent
10500	143,035.5	140,286.8	-2,748.7	2,748.7	1.9%
61040	63,750.0	58,603.3	-5,146.7	5,146.7	8.1%
13400	47,309.9	46,410.4	-899.5	899.5	1.9%
10600	45,528.9	39,894.1	-5,634.8	5,634.8	12.4%
13701	29,408.3	28,095.6	-1,312.7	1,312.7	4.5%
13000	27,357.4	24,852.7	-2,504.7	2,504.7	9.2%
11400	26,430.1	26,429.9	-0.2	0.2	0.0%
13100	21,386.1	20,736.2	-649.9	649.9	3.0%
10700	18,901.9	18,148.7	-753.2	753.2	4.0%
11701	14,618.0	14,618.0	0.0	0.0	0.0%
13702	14,023.7	12,788.9	-1,234.8	1,234.8	8.8%
13704	13,209.0	10,075.7	-3,133.3	3,133.3	23.7%
40200	10,889.6	7,909.4	-2,980.2	2,980.2	27.4%
11900	10,575.6	9,966.9	-608.7	608.7	5.8%
11702	6,762.4	6,762.4	0.0	0.0	0.0%
13500	6,100.0	5,864.1	-235.9	235.9	3.9%
30206	5,917.3	5,630.6	-286.7	286.7	4.8%
13301	5,746.8	1,673.2	-4,073.6	4,073.6	70.9%
30200	5,551.4	1,457.2	-4,094.2	4,094.2	73.8%
10502	5,002.8	3,542.6	-1,460.2	1,460.2	29.2%
Rest	104,536.1	88,767.2	-15,768.9	15,768.9	15.1%
Total	626,040.8	572,513.9	-53,526.9	53,526.9	8.6%

RS D million	2008				
Administrative	budget	actual	difference	absolute	percent
10500	180,060.2	177,451.6	-2,608.6	2,608.6	1.4%
13700	117,904.1	104,823.9	-13,080.2	13,080.2	11.1%
13400	82,724.1	82,471.8	-252.3	252.3	0.3%
61040	68,974.8	65,695.6	-3,279.2	3,279.2	4.8%
10600	45,965.0	43,643.1	-2,321.9	2,321.9	5.1%
13000	33,392.0	31,322.3	-2,069.7	2,069.7	6.2%
10700	25,591.1	24,139.2	-1,451.9	1,451.9	5.7%
13100	23,340.6	20,697.6	-2,643.0	2,643.0	11.3%
40200	10,808.8	8,221.7	-2,587.1	2,587.1	23.9%
11900	10,147.7	8,977.8	-1,169.9	1,169.9	11.5%
10209	9,253.7	9,253.7	0.0	0.0	0.0%
13500	8,609.5	8,246.1	-363.4	363.4	4.2%
13300	8,411.4	2,037.0	-6,374.4	6,374.4	75.8%
30206	8,278.0	7,740.4	-537.6	537.6	6.5%
13900	6,174.5	6,034.4	-140.1	140.1	2.3%
10502	5,552.1	4,024.9	-1,527.2	1,527.2	27.5%
10301	5,137.8	4,677.8	-460.0	460.0	9.0%
41100	4,828.8	3,566.5	-1,262.3	1,262.3	26.1%
10701	3,802.4	2,998.9	-803.5	803.5	21.1%
11801	3,694.7	3,535.0	-159.7	159.7	4.3%
Rest	68,816.4	51,648.3	-17,168.1	17,168.1	24.9%
Total	731,467.7	671,207.6	-60,260.1	60,260.1	8.2%

RS D million	2009				
Administrative	budget	actual	difference	absolute	percent
10500	236,721.9	236,179.3	-542.6	542.6	0.2%
13700	116,677.5	106,641.2	-10,036.3	10,036.3	8.6%
13400	92,556.5	88,991.5	-3,565.0	3,565.0	3.9%
61040	69,181.1	66,239.2	-2,941.9	2,941.9	4.3%
10600	46,238.2	42,512.7	-3,725.5	3,725.5	8.1%
13000	34,235.8	33,338.1	-897.7	897.7	2.6%
10700	19,032.7	15,806.6	-3,226.1	3,226.1	17.0%
13100	13,934.7	13,777.1	-157.6	157.6	1.1%
40200	8,572.3	7,123.1	-1,449.2	1,449.2	16.9%
13500	8,304.9	8,269.9	-35.0	35.0	0.4%
30206	7,472.0	7,277.0	-195.0	195.0	2.6%
11900	7,317.3	6,724.9	-592.4	592.4	8.1%
50027	6,558.2	6,553.5	-4.7	4.7	0.1%
13300	6,032.5	2,096.6	-3,935.9	3,935.9	65.2%
10301	5,305.5	5,082.0	-223.5	223.5	4.2%
14100	4,738.2	4,263.3	-474.9	474.9	10.0%
10502	4,672.8	3,836.2	-836.6	836.6	17.9%
13900	4,051.2	3,949.9	-101.3	101.3	2.5%
11801	3,694.9	3,537.2	-157.7	157.7	4.3%
10701	3,506.2	2,350.0	-1,156.2	1,156.2	33.0%
Rest	56,416.6	48,676.5	-7,740.1	7,740.1	13.7%
Total	755,221.0	713,225.8	-41,995.2	41,995.2	5.6%

PI-3. Aggregate revenue out-turn compared to original approved budget.

Outturn and budgeted revenue data for 2007, 2008 and 2009 are presented below. While outturn was just less than budgeted in 2007, the shortfall increased further 2008 to just under 3 per cent of the budget forecast. However in 2009, there was a further deterioration to over 11 per cent. This reflected the worsening economic performance where all taxes did not meet budgeted forecasts. In each year VAT and Excise outturn were below budgeted while non tax revenues exceeded the budget by as much as 56 per cent in 2008 and 29 per cent in 2009. Indeed, the net outcome was much better than the outcome for individual taxes and would have been rated lower if not for the offsetting effect of non-tax revenue under-estimates.

As a result of the deteriorations, there were supplementary budget in 2008 and 2009. In 2008 there were elections which led to a new Government. In 2009, the original budget law envisaged some increase in revenues, based on the estimates agreed with the IMF macro framework (real growth of GDP, inflation, external sector movements, etc). However, it soon became clear that the planned macro and fiscal framework were not realistic, and the projections were revised projections downwards. The Ministry of Finance also introduced a set of new policy measures to increase revenues[14] (increase in excises on oil derivates, introducing new tax on mobile phones, changes in the Personal income tax law, etc). These new measures were not enough to compensate for the downturn in revenues, mainly on VAT and duties on imports and customs, but also personal and corporate income tax.

[14] Budget Memorandum for 2010 with projections for 2011 and 2012, June 2009

Government Revenue (Mil. RS D)

	Budget	Outturn	+/-	%
2007	581,841.50	580,390.00	-1,451.50	-0.25
2008	639,600.30	621,719.30	-17,881.00	-2.80
2009	698,756.20	619,434.40	-79,321.80	-11.35

Source: The Budget Law for 2007, 2008 and 2009 and Ministry of Finance

Score C	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score C (i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.

PI-4. Stock and monitoring of expenditure payment arrears.

(i) Stock of expenditure arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.

The Macroeconomic and Fiscal Analysis and Projections Department (MoF) collects and monitors quarterly arrears (end of March, June, September and December) of budget beneficiaries, PE Roads of Serbia and Mandatory Social Security Organizations. The Table below shows arrears for the period 2007-2009. As a result of annual increases in arrears of PE Roads of Serbia to suppliers, these arrears were almost repaid in 2009 by the loans that Government of Serbia took from the commercial banks[15]. Arrears of the Social Security Funds (SSF) include arrears by the Health Fund and the National Employment Agency (NEA). Arrears of SSF increased in the period, with NEA arrears decreasing but offset by Health Fund increases particularly for medicines.

Arrears in mil. Dinars

	2007	2008	2009
Budget Beneficiaries	9,585.8	13,254.0	9,926.0
PE Roads of Serbia	24,892.3	28,731.6	1,146.4
Social Security Funds	9,850.7	11,203.7	16,456.0
Total arrears	**44,328.9**	**53,189.3**	**27,528.5**
Total expenditures of Central Government	572,513.9	671,207.6	713,225.8
Budget beneficiaries' arrears/Total expenditure. (%)	1.67	1.97	1.39
Total arrears/Total expenditures (%)	7.74	7.92	3.86

Score B

(ii) Availability of data for monitoring the stock of expenditure payment arrears

Arrears are monitored by the Treasury for Budget Beneficiaries using the IFMIS system on a monthly basis. The Macroeconomic and Fiscal Analyses and Projections Department carries out a quarterly survey which is also extended to Parastatals and MSSOs. Information on type of arrears and to whom, is collated as well as arrears in the previous period. This is done by letter which includes a table and recipients have 15 days to respond. There is not, however, an analysis of the age of the arrears.

The information from both sources of data on arrears is sent to the IMF under the standby agreement that Serbia has with the IMF.

[15] Roads were part of the Ministry of Infrastructure, but now are established as a Public Utility.

The appropriate score for this sub-dimension is B.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Score B Score (i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. Score B (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. Score B

3.2. Transparency and comprehensiveness

PI-5. Classification of the budget

(i) The classification system used for formulation, execution and reporting of the central government's budget.

The Law on Budget System (Official Gazette of the Republic of Serbia, no.54/09) Guidelines for Budget Preparation requires expenditures and expenses in the draft financial plan to be presented by functional classification as well as by economic categories and administrative responsibility. The basis of the functional classification is by type of function in service delivery activities. However the function of an agency in some instances cannot be exactly categorised since the budget user performs several different functions. In this case, the budget users are obliged to identify this content and clearly systematise into adequate functional defined categories. Moreover, as investment under the National Investment Plan is all channeled through the Ministry for National Investment, capital expenditures under NIP are allocated to Economic Affairs and not to the function that relates to the particular investment, such as education. This overstates expenditures in Economic Affairs and understates expenditure in other functions that have NIP administered capital expenditure. This is about 2 per cent of the total budget.

The ten COFOG functions are used (although these can be disaggregated further to 39 sub functions, which are not used). Presentation of the budget and expenditure outturns is mainly by administrative and economic classification, though expenditure by function has been shown in the December 2008 Memorandum. As this most recent published expenditure by functional covered the period 2005-2007, the Budget Execution Department in the Treasury was able to demonstrate that the FMIS is able to produce a report on the 2008 and 2009 expenditure outturn by the 10 COFOG functions. The Ministry of Finance supplied expenditure by function for Table 6.

The Chart of Accounts and classification is consistent with GFS 2001 methodology.

Score B

	Minimum Requirements (scoring Method M1)
PI-5. Classification of the budget	Score B (i) The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. Score B

PI-6. Comprehensiveness of information included in budget documentation.

The Memorandum on the Budget and Economic and Fiscal Policy for the next and subsequent two years and the Annual Budget are the two main documents which are produced as part of the budget calendar. Over the past three years the Budget Law and the rationale contained in it are becoming ever more comprehensive and detailed. The content of the Law has been extended to include the EU development assistance including funds for co-financing of projects/programmes supported by the Instrument for Pre-Accession Assistance (IPA), as well as implementation of cross-border cooperation programmes funded by the EU. In particular, the rationale is amended by explanation related to use of certain types of expenditures. The 2009 and 2010 budgets contain also data on total fiscal deficit. The amendments to the Law on Budget System are being drafted with a view to establish the rules of fiscal responsibility and improve the comprehensiveness of information contained in the budget documents. In addition in line with the Law on Budget System and the Guidelines for Budget Preparation, the budget beneficiaries will be able to conduct mid-term quantification and assessment of effects of new policies and national investment priorities. Starting from 2010, the budget contains an assessment of tax expenditures.

The following elements are included in the Memorandum and Budget Documentation.

Element	Memorandum	Budget
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes (exchange rates are implicit[16])	Partial
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes	Yes
3. Deficit financing, describing anticipated composition.	No	Yes
4. Debt stock, including details at least for the beginning of the current year.	Yes	Yes
5. Financial Assets, including details at least for the beginning of the current year.	No	No
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No	No
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	No	Yes
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	Yes
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	No

	Minimum Requirements (scoring Method M1
PI-6. Comprehensiveness of information included in budget documentation.	With 6 out of 9 benchmarks met: Score B

PI-7. Extent of unreported government operations.

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.

All annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports include all revenues and expenditures. Expenditures funded by own source revenues are covered in indicators PI-1 and PI-2

There are three types of funds that could be considered as analogous to Extra Budgetary Expenditures (EBEs) which are the MSSOs. However these are subject to the provisions of

[16] The projections give GDP in euro, US$ and SD which allows the calculation of euro and US$ to SD exchange rate for the future 3 years. The most recent Memorandum mentions stable exchange rates as an assumption.

the Budget Systems Law in its entirety.

Given that there is no evidence of "unreported" government operations a Score A is allocated.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

In 2008, 6% of total external grant aid was implemented through the Treasury and is therefore included in fiscal reports. In addition, information on EU assistance, in terms of the allocations and planned annual disbursements, is included in the Budget Law (EU assistance accounts for approximately 50% of total external aid). Given that USAID accounts for over 10% of donor aid and is not fully represented in fiscal reports, it can be asserted that between 50 and 90% of total external grant aid is included in fiscal reports.

It is estimated that in 2008, total expenditures relating to donor funded projects accounted for approximately 2% of the total budget expenditures.

Score B

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score B+ (i). The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). Score A (ii). Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects. Score B

PI-8. Transparency of Inter-Governmental Fiscal Relations

(i) Transparent and rules based systems in the horizontal allocation among SN governments (ATUs) of unconditional and conditional transfers from central government (both budgeted and actual allocations).

The legal basis and determination of transfers to local governments from the centre is set out in detail in the Law on Local Government Finance enacted on January 1, 2007. A Commission for Intergovernmental Finances is established under the Law to ensure the principle of fairness, efficiency and transparency of intergovernmental finance and to propose recommendations for its improvement.

A local government unit is entitled to the following taxes collected on its territory:

1) Personal income tax, coming from the income from:
    - (1) Agriculture and forestry,
    - (2) Private business,
    - (3) Real estate property,
    - (4) Leasing movables,
    - (5) Personal insurance,
    - (6) 40% share of the wage tax paid according to the employee's place of residence;
    - (7) Other revenues in line with the law;
2) Tax on inheritance and gift;
3) Tax on transfer of absolute rights.

In addition there is Shared Revenues Collected from Charges collected on its territory**:**

1) Annual charge for motor vehicles, tractors and trailers;
2) Charge for pollution;
3) Charge for use of mineral production materials;
4) Charges for the material taken out of river beds;

5) Charges for use of forests;
6) Charges for use of waters;
7) Charge for change of purpose of the agricultural land;
8) Charge for use of the curative factor of the nature
9) Tourist charge;
10) Other charges in accordance with law.

Total general unconditional (non-categorical) Transfers from the Central Government amounts to 1.7% of the gross domestic product as published in the latest information from the Republic body in charge of statistics. For setting the rate of certain conditional transfers stipulated in this Law, the assessment of total and per sectors revenues shall be based on the amount of revenues collected in the last year for which there are available data, and based on the Memorandum on Budget, Economic and Fiscal Policy (hereinafter: the Memorandum).

The equalization transfer shall be specified according to priorities as part of the total amount of unconditional transfer referred to in article 37 of the present law. Each local government unit with the estimated amount of revenues shared taxes per capita , for the year the budget is adopted, which is less than 90% of the amount of average shared revenues per capita for all municipalities in Serbia shall have the right to equalization transfer; cities are not included.

The amount of the equalization grant for each local government unit is calculated by applying the following methodology:

1) Multiplying the number of population of a particular unit with 90% of average shared revenues in all municipalities in Serbia, cities are not included.
2) Then subtracting the estimated amount of shared revenues of local government unit from the amount referred to in 1 above.
3) The compensation is 90% of the difference, defined in 2 above.

Compensation transfer is a part of total unconditional transfer that is used to compensate for the revenues that are lost due to changes of the Republic tax legislation, which is not compensated for by other revenues. In case of the lost revenues from shared republic taxes divided between the Republic budget and budgets of local government units, the local government unit shall be compensated by the Republic with the portion of the lost revenues which ensues at least the proportional ratio of the lost revenues in the Republic budget and the total budgets of all local government units in the Republic. The determined amount of compensation transfer from the previous year is increased by forecasted price increase rate for the next year set by the Memorandum on Budget.

If the change of methodology for allocation of transfers causes a decrease of the amount of total estimated revenues of a local government unit by more than prescribed limit, that particular local government unit shall have the right to transitional transfer , as well as a portion of its lost revenues is compensated.

Compensation of the lost revenues may not last longer than three years according to the following dynamics:

- in the first year municipalities shall be compensated for the entire amount of the loss whereas the cities shall be compensated for the part of loss which is above 5% of the total revenues;
- in the second year 50% out of the set amount from the first year shall be compensated for;
- In the third year 25% out of the set amount from the first year shall be compensated for.

The amount of transitional transfer in the second and third years shall be in line with the price growth ratio set by the Memorandum. Transitional transfer shall be subtracted from the general transfer.

All local government units in Serbia shall have the right to general transfer. The total amount of the general transfer shall be the difference between the total amount of unconditional transfer and the total amount of the equalization transfer, compensation and transitional transfer. The amount of general transfer for particular local government units shall be determined according to the following criteria:

- 65.0% of the total amount of general transfer is allocated according to the number of population.
- 19.3% is allocated according to the territory (per $km^{2)}$.
- 4.56% is allocated according to the number of classes in elementary schools, wherewith the amount of transfer per one class is calculated when the total general transfer for allocation per number of classes in elementary schools is divided by total number of classes, based on figures provided by the ministry in charge of education.
- 1.14% is allocated according to the number of buildings of elementary schools.
- 2.0% is allocated according to the number of classes in secondary schools.
- 0, 5% is allocated according to the number of buildings of secondary schools.
- 6.0% is allocated according to the number of children included in the child care program, separately for whole-day and half-day care.
- 1.5% is allocated according to the number of buildings used for child care program.

The Law stipulates the methodologies for calculation and the source of the data.

The amount of funds determined is reduced for local government units with estimated shared revenues per capita, for the year the budget is adopted, compared to the average of all local government units in the Republic, 50% above the Republic average (Index 150).
The transfer reduction shall be 40% of the amount which is above the limit
The amount of general transfer is increased for the amount of deduction of transfer for local government units with average shared revenues compared to the average of all local government units below the limit

The total amount of block transfer shall be calculated on the basis of data on total expenditure which a particular function incurred in the last year before it became the responsibility of local government.

In addition there may be a conditional (categorical)l transfer to local government units for performing particular original and delegated functions. The line ministry, i.e. special organization shall determine amount of categorical transfer and criteria for allocation to individual local government units as well as transfer dynamics.

While the legal basis and methodology for transfers to local authorities as outlined above would merit an A Score, the application in recent budget years has not followed the Law due to the economic situation which Serbia faced. While the planned transfers were set out in the 2009 Memorandum as envisaged, funds were cut by 15 billion dinar (37 per cent) in April and the remaining 26.6 billion dinar were not allocated according to the formulae. An alternative allocation methodology of no one local authority would get more than a 50 per cent cut and a per capita threshold of 3,000 dinar was established. The "suspension" of the process continued in 2010.

In 2009, some 2.5 billion dinar of conditional (earmarked) transfers was allocated from Line Ministries. However, the criteria do not appear to be transparent.

The Commission for Intergovernmental Finances has not been constituted and is expected to be in 2010

Score C

(ii) Timeliness of reliable information to Sub National (SN) governments (ATUs) on their allocations from central government for the coming year;

A Calendar for local government budget has been established in the Budget Systems Law:

(1) 15 June –local government finance authority issues the instruction for the preparation of the draft local government budget;

(2) 1 September – direct beneficiaries of the local government budget submits the draft financial plan to the local government finance authority for the budget year and the two following fiscal years;
(3) 15 October - local government finance authority submits Draft Budget Decision to the local government executive authority;
(4) 1 November - local government executive authority submits the Proposed Budget Decision to the local government assembly;
(5) 20 December - local government assembly adopts the local government Budget Decision;
(6) 25 December - local government finance authority furnishes the Minister with the local government Budget Decision.

A detailed table with the list of all cities and municipalities and structure of given transfers is a part of Revised Budget Memorandum in October. This is the amount of transfers, cities and municipalities use in the budget preparation process. In addition, under the Law, The Ministry of Finance provides the Commission and the Standing Conference of Towns and Municipalities with complete data on the revenues and expenditures of all local government units for the previous year by April 30 of the current fiscal year. Unconditional transfers are allocated to the local government unit up to 25th day of the month for the previous month in the amount of one twelfth of the amount foreseen for the particular fiscal year.

The scoring of this dimension has been impacted by the "suspension" of the process. If the process had operated as planned and according to the Law, the score would be an A. However, the application merits a score of C.

Score C

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

Since 2005 Ministry of Finance receives, on monthly basis, data on the local government budgets and budget execution, for all cities and municipalities. Those data are used for reporting on consolidated general government movements and published in different MoF documents[17], web site, as well. The same methodology as for the Central government is used.

Score A

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	Score B (i) The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems. Score C (ii) Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made. Score C (iii) Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. Score A

[17] Public Finance Bulletin, Budget Memorandum, monthly data on macro and fiscal developments etc.

PI-9. Oversight of aggregate fiscal risk from other public sector entities.

(i). Extent of central government monitoring of AGAs, SEs and JSC.

The Department for Economy and Public Enterprises in the Ministry of Finance does not estimate fiscal risks as such. Its concern, regarding public enterprises, is with microeconomic issues such as cost and incomes, prices under state control, employment policy, and the like. The Department does not receive any reports from individual companies and so is unable to distribute such reports to the responsible parts in the Government. It is not able to make a consolidated report. Responding to a request on the evaluations of fiscal risks from public enterprises, Public Enterprises Department answered that this department "does not receive any reports from individual companies and therefore is not able to make a consolidated report". Roads, were part of the Ministry of infrastructure, but now are established as Public Utility. The regular source of income is toll and earmarked tax paid on registration. They submit their financial statement to The Serbian Business Registers Agency (SBRA), but unlike the other Public Utilities is still monitored by Macro Department of the MoF.

According to the Budget System Law (article 28 (7) while the budget must estimate total amount of new guarantees of the Republic of Serbia to be issued over the course of the budget year, this does not appear to be monitored at all in the case of SoEs. The newly created Debt Management Unit has the responsibility for assessing risk relating to loans, but has yet to establish the capacity to carry out this function fully.

Score D

(ii) Extent of central government monitoring of SN (ATUs) governments' fiscal position.

Local Authorities are permitted to borrow. Before each loan is contracted, the Local Authority must obtain approval from the Ministry of Finance. Each Local Authority submits to the Ministry of Finance a statement on its borrowing status twice a year. Payment related to any loans is through the Treasury General Ledger and can be monitored. There is an excel sheet which is produced by Treasury with indirect loans classified according to an estimation of whether debtors are able to repay loans that have been incurred.

Score A

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	Score D+ (i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete. Score D (ii) The net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports. Score A

PI-10. Public Access to key fiscal information

The Department for Macroeconomic and Fiscal Analysis and Projections prepare data/documents that are available to the public[18]:

- Latest macroeconomic indicators (industrial production, inflation, external sector movements, labor market, etc.) – prepared monthly;
- Central government (Republican) budget execution – for budgetary and all sources of financing – prepared monthly;
- Consolidated general government report, using GFSM 1986 methodology (as agreed with the IMF) – prepared monthly;

[18] Electronic version on the web site of Ministry of Finance, but also as hard copy.

- Public debt of Central government data – prepared monthly.
- Public Finance Bulletin – containing detailed tables of comprehensive macro
- indicators as well as fiscal data for all levels of government / prepared monthly.

All of those documents, Serbian and English version, can be found on: http://www.mfin.gov.rs

There is a law on availability of public information which guarantees access to information, but often producing non routine information may well require significant effort and resources.

Public access to key fiscal information is assessed through the six criteria for the indicator as follows.

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Two times a year the Ministry of Finance prepares the Budget Memorandum on Economic and Fiscal Policy for the next three years. Both documents, after the Government adoption, are printed and put on our website (Serbian and English version). Revised BM (in October), after the Government adoption is also published in the Official Gazette of Republic of Serbia. Draft Budget Law (after the Government adoption) is not a subject of public hearing and it is available to the public after the adoption by Parliament.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	These are prepared monthly and posted on the MoF website as Bulletin Public Finance in the month following (e.g. the June Bulletin is published in July) though there is a delay over the summer holiday period.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	The Ministry of Finance presented to the auditor the final accounts statement on 15 June 2009. The 2008 audited statements were posted on the National Assembly website on 27 November 2009.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	The auditor's report on the financial audit of the final statement was made on 27 November 2009 and submitted to the Parliament and simultaneously published on the website.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Bidding opportunities, contract awards, and data on the resolution of procurement complaints are made available to the public through PPO's website and Public Procurement Portal. Posting of procurement plans on PP Portal will be possible in near future but is not mandatory.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Information on the allocations to be transferred and available are generated within the FMIS system. Data are compiled in financial reports at annual level as well as in quarterly reports, and can be requested by the public.

Score A

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score A (i) the government makes available to the public 5-6 of the 6 listed types of information

3.3. Policy-based budgeting

PI-11. Orderliness and participation in the annual budget process

(i) Existence of and adherence to a fixed budget calendar.

The Budget System law (BSL) provides a clear timetable which has largely been adhered to for the last three fiscal years. The Calendar for Central Government is as follows:

(1) 15 March – direct beneficiaries of the budget of the Republic of Serbia furnish the Ministry with the proposals for determining priority areas of financing for the budget year and the two following fiscal years;
(2) 1 April – the Government, at an agreed proposal of the Ministry and special Government body, determines priority financing areas, including national investment priorities for the budget year and the following two fiscal years;
(3) 10 April – Government organizes a public hearing on priority areas of financing, also including national investment priorities for the budget year and the next two fiscal years;
(4) 30 April – the Minister, in cooperation with ministries and institutions in charge of economic policy and economy system, prepares the Memorandum, which shall contain economic and fiscal policy of the Government with projections for the budget year and the two following fiscal years; taking into account the public hearing;
(5) 15 May – Government adopts the Memorandum;
(6) 1 June – the Minister adopts the instruction for the preparation of the draft budget of the Republic of Serbia;
(7) 1 June – the Minister submits the Memorandum to local government and organizations for mandatory social insurance;
(8) 1 September- direct beneficiaries of the budget of the Republic of Serbia and organizations for mandatory social insurance submits draft medium-term and financial plan to the Ministry;
(9) 1 October – upon the proposal of the Minister, the Government adopts the revised Memorandum, together with information on financial and other effects of new policies, taking into account the macroeconomic framework updated after 30 April;
(10) 15 October – the Minister furnishes the Government with the Draft Law on the Budget of the Republic of Serbia, draft decisions on giving consent to financial plans of organizations for mandatory social insurance, accompanied by said financial plans;
(11) 1 November – Government adopts the Proposed Law on the Budget of the Republic of Serbia and shall submit it, together with the revised Memorandum, the proposed decisions on giving consent to financial plans of organizations for mandatory social insurance, and said financial plans, to the National Assembly;
(12) 15 December - National Assembly shall adopt the Law on the Budget of the Republic of Serbia and decisions on giving consent to financial plans of organizations for mandatory social insurance.

Slippage has occurred largely as a result of adjustments being made after IMF missions, though such slippage has been made up later in the year, but still maintaining at least 6 weeks for line ministries to elaborate their submissions after the Budget Preparation Guideline, as well as achieving legislative approval before the start of the fiscal year. However, some Line Ministries do not adhere to the submission deadline established in the calendar. It should be noted that MTEF/strategic planning is not integrated into the timetable (PI – 12) given its infancy in Serbia.

Score A

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation

The Budget Preparation Guideline is comprehensive and clear and includes indicative ceilings previously approved by Cabinet (Vlada) by economic and administrative but not functional classification.

Score A

(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).

According to the BSL, the National Assembly has 1.5 months to reach agreement on the budget (between November 1 and December 15). Although delays have been experienced in presenting the budget to the National Assembly (1st December in 2009), approval has still occurred before the end of the year (21st December in 2009, 29th December in 2008 and 26th December in 2007).

Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	Score A (i). A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least 6 weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. Score A (ii) A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by cabinet (or equivalent) prior to the circular's distribution to MDAs. Score A (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. Score A

PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

(i) Preparation of multi -year fiscal forecasts and functional allocations.

Multi-year fiscal forecasts are produced as part of the MTEF process and are instrumental in the setting of MTEF sector ceilings by way of line ministry MTEF submissions. They are also used in the setting of the (later) budget ceilings, forming a part of the Memorandum on the Budget and Economic and Fiscal Policy for the Year 2010 with Projections for the Years 2011 and 2012. However, links between multi-year estimates and subsequent setting of annual budget ceilings are not clear.

Score C

(ii) Scope and frequency of debt sustainability analysis

The Debt Management Unit (DMU) was established in September 2009 as a semi-autonomous institution thereby satisfying EC accession criteria. Its current emphasis is to assemble all debt data to ascertain the current stock of debt (largely from the Central bank but also project PIUs. The National Bank of Serbia does publish an annual Analysis of Debt which includes some basic indicators of sustainability, though no extensive analysis.

The Memorandum includes public debt sustainability as the ability of the Republic of Serbia to service regularly its liabilities to domestic and foreign creditors. It lists the main indicators of public debt sustainability as

1. Public debt and gross domestic product ratio;
2. Foreign public debt and export of goods and services ratio, and
3. Primary budget balance and gross domestic product ratio.

The Memorandum provides a detailed analysis of these factors for the following three years.

While it is planned that the debt analysis will be conducted annually, at the time of the evaluation the Score is B as it has been conducted once in the past three years.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

Sector strategies are prepared for all key sectors but, in the absence of a functioning MTEF, they do not include costing of investments and recurrent expenditure. Furthermore, varying proportions of sector investments are controlled by the National Investment Programme (NIP), rendering it difficult to plan for sectoral investments. Programme budgeting is at present a desk exercise which is not translated into the current budget process, despite the appearance of demand from the MTEF pilot ministries to move towards substantive programme budgeting.

Score D

iv) Linkages between investment budgets and forward expenditure estimates.

Investment decisions are made both by line ministries under the budget ceiling but also via the National Investment Plan – a dual process, rendering any link to sector strategies tenuous. There is little evidence of any investment decisions including the recurrent cost implications after completion.

Score C

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	Score C (i) Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis. Score C (ii) DSA for external and domestic debt is undertaken at least once during the last three years. . Score B (iii) Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. Score D (iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases. Score C

3.4. Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

Tax revenue is collected through two separate departments Tax Administration and Customs Administration which are division of the Ministry of Finance. Each of these administrations has their own laws although some laws such as on VAT and Excises are applicable to both, as Customs collects these taxes on imports. Each Law sets out in detail administrative procedures and the coverage of taxes under its jurisdiction. The various laws establish the procedures for their application and these laws are observed in their practice.

The procedures for the assessment, collection, and control of the public revenues collected by the Tax Administration (tax procedure), taxpayer rights and obligations, taxpayer registration, tax crimes and violations are regulated by the Law on Tax Procedure and Tax Administration (LTPTA) (“Official Gazette of RS”, No. 80/02...20/09). Revenues collected by the Tax Administration (tax revenues) are regulated under separate tax legislation and bylaws (rulebooks, orders, and instructions) adopted by the Government of the Republic of Serbia. The Rulebook on Terms and Procedures for Accessing Data Excerpts from Electronic Books and Individual Taxpayer Records (“Official Gazette of RS”, No.6/2010) was adopted at the beginning of 2010, allows the tax inspectors to import the taxpayers’ ledger data and VAT records electronically and enables them to use the recognized audit tools to ensure faster and more reliable control of the taxpayers who have large volumes of business documentation, eliminating all possibilities for discretion by individuals and authorities.

Customs Tariff Law "Official Gazette of the Republic of Serbia", No.61 /2007 "Official Gazette of the Republic of Serbia", No. 5/2009 "Official Gazette of the Republic of Serbia", No. 33/2009 governs the operations of the Customs Department.

The legislation and bylaws used in the assessment of the dimension are all published in the Official Gazette of the Republic of Serbia.

The Chamber of Commerce considers that all taxes are defined by Law, can be accessed by all and are generally transparent.

Score A

(ii) Taxpayer access to information on tax liabilities and administrative procedures.

The Law stipulates that the legislation and bylaws (rulebooks, orders, and instructions) are to be published in “Official Gazette of the Republic of Serbia”, in a public newspaper available to all companies and individuals. All information pertaining to tax legislation and regulations are at the disposal of all existing and prospective taxpayers, by having all the necessary information regarding tax declarations, timelines for submission, tax return forms, various announcements relating to the effectiveness of new laws and bylaws, and similar permanently available at the Tax Administration website. Within the Tax Administration, there is a new, modern Call Centre answering all taxpayer queries (phone and email), while the taxpayers in the Large Taxpayer Centre submit their tax returns electronically. In addition, the Tax Administration informs the taxpayers about important tax events through the public media such as tax payment dates, changes in the relevant tax regulations, and other important issues.

With a view to accessibility of information relevant for all the participants in foreign trade transactions the Customs Directorate has published, on its official website, the following: Text of the Law on VAT; Text of the Law on Excises; List of goods taxed as per special VAT rate of 8%, linked to the nomenclature of the 2010 Customs Tariff; and List of goods subject to payment linked to the nomenclature of the 2010 Customs Tariff.. Besides provision of information, the new Custom Administration portal enables the provision of answers to posted questions as well as electronic request submission in a fast manner.

The Custom Administration has enabled all taxpayers to be familiar with the legal regulations and to find needed information through the use of the internet. The Custom Administration has its training centre where it organizes training for representatives of the business community and after testing of knowledge acquired, it issues certificates. In agreement with the Serbian Chamber of Commerce, the Custom Administration organizes training for business communities at Regional Chambers of Commerce on issues of mutual interest. All instructions issued by the Custom Administration related to this topic are posted on the website as well as published in “Custom Review“.

Both Customs and Tax Administration work with the Chamber of Commerce in disseminating information on tax matters. However neither Administration has a dedicated taxpayer education unit.

The Chamber of Commerce considers that sometimes definitions are unclear and are open to different operational procedures depending on individual inspectors. However, access to information has greatly improved with the use of the internet and production of user manuals. Most issues in Customs relate to country of origin and health certification for food products.

Score B

(iii) Existence and functioning of a tax appeals mechanism.

The appeals mechanism for both Customs and Tax Administration follows the same process resolution within the Agency before moving to a higher level. The tax procedure is regulated as a three-step process, which means that each decision-resolution adopted in the prior instance procedure is subject to reconsideration in the subsequent instance appeals procedure. The first and second instances are conducted in-house at different levels of authority. The higher authority second-instance tax decisions are subject to judicial scrutiny if agreement is not reached.. The Appeals mechanism is regulated under the LTPTA and it is the same for all tax forms. Against a final tax administrative act, a taxpayer may file a law suit instigating an administrative dispute before the Constitutional Court (previously, administrative procedures were instigated and decided before the Supreme Court of Serbia).

For Customs matters, taxpayers have an effective complaints mechanism which is designed to guarantee fair treatment to contest any decision of the Custom Administration relating to tax payment obligations. During the clearance of goods, the party in the process may lodge a complaint regarding the custom value and amount of custom duties imposed. The ruling in the regular administrative procedure and in the first instance is made by the custom offices while in the second instance it is the Custom Administration that makes the ruling; the court shall issue the third instance ruling. In 2009, the total of 2,759 complaints was lodged to the first-instance decisions issued by the custom office. The custom offices decide on minor offences, while the court shall decide in the second instance, while for all the other (non minor) offences it is the magistrates' court to decide even in the first instance.

Based on all the above, both tax agencies conclude that the taxpayers are able to protect fully their interests in law, either internally within the Tax Administration and Customs Administration, or externally before the relevant court. Nevertheless, the Chamber of Commerce considers that the appeal process can take too long if it is not settled out of court which usually is prejudicial against the tax payer as interim measures for payment are demanded and have to be made. It does state that Customs try and resolve a second level appeal within seven days.

A Tax Tribunal does not exist, however, a Law on Tax Counsellor (similar to a Tribunal) is in preparation with the assistance of GTZ, which the Chamber will be able to comment on in due course.

Score B

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	Score B+ (i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. Score A (ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. Score B (iii) A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed. Score B

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system.

The taxpayer registration in the Tax Administration has been improved to a large extent in relation to the past. The recent amendments to the Law on Tax Procedure and Tax Administration ("Official Gazette of RS", No. 80/02...20/09) where it pertains to taxpayer registration, stipulate a considerably shorter period for taxpayer registration, including also the allocation of Tax Identity Number (TIN), which is immediately followed by various control mechanisms to ensure the compliance with the terms and conditions for the allocation of TIN. The shortening of the timeline for registration was achieved in cooperation with the Business Registers Agency (BRA), which has been competent for the registration of commercial entities from 2005. The timeline for taxpayer registration was reduced to a period of 24 hours, during which the Tax Administration is obligated to perform the registration and assign the TIN. Linking the taxpayer registration and updating the data together with the BRA has ensured a more efficient management of the taxpayer database. An important improvement of the taxpayer registration process is the development of the software for the integrated registry within the Tax Administration, which should ensure the conditions for the integration of all types of taxpayers into one information system and the links with the information systems in other relevant state institutions, which has not been the case until now.

The Customs Directorate also uses the data base of the Serbian Business Registers Agency. A system of data exchange with the Customs Directorate has been established allowing for an enhanced risk management and organization of timely and quality controls.

The Chamber of Commerce considers the TIN process to have been streamlined and improved.

Score B

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

The Laws regarding both Tax Agencies and the taxes that they administer stipulate penalties for non compliance. For example, the VAT Law stipulates specific measures to be undertaken in order to ensure clear records of the taxpayers who are accounting and paying VAT monthly or quarterly. The Tax Administration controls the extent to which the taxpayers fulfil their obligations towards the Tax Administration in terms of regular submission of VAT documentation and tax returns. In the cases in which the control establishes non-compliance with the tax declaration submission obligations stipulated by Law, the violation proceedings will be instigated, and the penal provision will apply.

The amendments to Article 26 of the LTPTA bring also innovations in the taxpayer registration procedure for companies that allow the Tax Administration to undertake specific measures in terms of the control of the terms and the purpose for the establishment of new companies, by way of checking their connected parties and the availability of newly established companies. That could prevent, to a great extent, new companies established for the purpose of tax evasion.

The connected parties are checked by investigating the newly established companies' founders' tax arrears, which clearly indicate the intention of the founder to establish a new company to evade the tax obligation that is due in the previous company they had founded. The legal basis for this type of control of newly established companies lies in Article 26, Paragraph 2.3, and consequentially, the application of Paragraph 8 of that same Article of the LTPTA, i.e. the adoption of the decision on temporary revocation of the assigned TIN number. For illustration, in 2009, there were 4,651 decisions on temporary TIN revocation issued as a result of the audit.

Both Tax Agencies consider that the value of the penalties is sufficiently high. The Chamber of Commerce did not disagree. The impact of enforcement on revenue collection (see PI-15 (i)) is high and implies that the penalties are imposed.

Score B

(iii) Planning and monitoring of tax audit and fraud investigation programs.

Both Tax Agencies have audit systems based on risk assessment and base their audit plans on this risk criteria. For Tax Administration, the selection of taxpayers to be audited is preceded by the assessment of the risk level for each taxpayer. Each taxpayer will be assigned a respective risk level based on the following:

- turnover declared in the registration form,
- actual turnover in the previous year adjusted for non-taxable turnover,
- the taxpayer's core activities taking into account the shares of turnover from individual activities,
- taxpayer's behaviour (tax return submission, number of days of default, number of defaults, number of corrected return forms),
- audit findings in relation to the tax obligation declared in the tax return,
- follow-up audit findings.

The Tax Administration has developed a software application that classifies all taxpayers at the beginning of each year into five basic groups, based on specific criteria, creating the risk pyramid. In addition to the risk assessment criteria, the criteria for the selection of taxpayers to be audited are also very well developed, and in contrast to the risk assessment criteria, these criteria and based on identifying illogical data and relations presented by taxpayers in their tax returns, financial reports, funds transfers through commercial banks or through cash registry data received via GPRS. Parallel with the development of the methodology for the selection of taxpayers to be audited, the system for monitoring of the results of audits selected based on the risk analysis, which allows the Tax Administration to monitor the audit results in accordance with the specified criterion for selection, whereby the specified criteria for selection are accepted, refined or rejected. The field audit results for 2007, 2008, and 2009 are presented below.

Year	Number of Audits	Revenue	VAT
2007	47,144	23,515,686,996	7,833,149,773
2008	44,245	25,950,769,217	12,432,284,621
2009	38,710	27,998,334,168	13,747,674,159
2008/2007 Index	93.85	110	159
2009/2008 Index	87.49	108	111

Custom Administration also uses its software as a tool for clearance and post clearance audit procedures. The risk assessment and risk management system is at the core of the Custom Administration operations and audit plan. The Custom Administration information system has a program for risk assessment informing custom officers on risks and provides information and guidelines for the follow-up. The risk criteria are entered into the software and an import is flagged for inspection should the risk criteria apply. Duties are calculated during the clearing procedure by the custom offices and later on by the Department for Follow-up Control and Department for Custom Investigations. During the follow-up checks the risk assessment and risk management system is being used.

The Chamber of Commerce does not report many complaints regarding the audit process, although it considers that audit relates more to financial control rather than systems. From time to time, it receives some complaints on process and procedures such as instances when those being audited have accounts blocked in anticipation of the result of an audit before the audit has been concluded.

Score B.

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	Score B (i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. Score B (ii) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration. Score B (iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. Score B

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

Total gross tax arrears of Tax Administration Agency are a sum of net tax arrears and disputed tax arrears. Total tax arrears collection rate (the percentage share of tax arrears at the beginning of the fiscal year collected in the course of the fiscal year) and total tax arrears as a share of total collections are presented in relation to gross tax arrears and net tax arrears. A considerable share of gross tax arrears are disputable tax arrears that, in compliance with the legislation, cannot be collected from the following categories: companies undergoing privatization and restructuring, companies in bankruptcy and liquidation procedures, companies deleted from the registry, ghost and money laundering companies, companies with insurance span gaps bridged. The data on the total tax arrears collection and the share of total tax arrears in total collections for 2008 and 2009 are presented below.

Components	2008	2009
Total gross arrears as of January 1 of respective fiscal year (in billion Serbian Dinars)	329.2	401.1
Total disputed arrears as of January 1 of respective fiscal year (in billion Serbian Dinars)	95.5	114.9
Total net arrears as of January 1 of respective fiscal year (in billion Serbian Dinars)	233.7	286.2
Total collection in the course of fiscal year, inclusive of December 31 of respective fiscal year (in billion Serbian Dinars)	743.0	798.1
Total gross arrears collection rate	226	199
Total net arrears collection rate	318	279
Total gross arrears as a share of total collections (in %)	44	50
Total net arrears as a share of total collections (in %)	31	36

Before it can enforce any tax payment, the Tax Administration issues a warning for payment of tax liabilities to a taxpayer, with the order to pay taxes within the statutory timeline of five days upon the receipt of the warning, and in case the taxpayer fails to pay the taxes indicated in the warning within the specified timeline, the Tax Administration initiates the tax enforcement procedure by adopting a tax enforcement decision. In compliance with the LTPTA, "sanctions" for taxpayers for defaulting on payment of tax liabilities due for payment are envisaged in the form of interest charged, special one-off enforcement fees, and bearing the cost of enforcement procedure. The table below shows the impacts of the regular and enforced collection measures undertaken by the Tax Administration.

IMPACTS OF REGULAR AND ENFORCED COLLECTION MEASURES UNDERTAKEN BY THE TAX ADMINISTRATION			
Collection Measures	**2008**	**2009**	**30 June 2010**
Regular collection			
Collection after warnings	19,141,942,000	16,134,223,000	7,874,241,000
Enforcement – total			
Collection under all enforcement decisions	9,207,273,000	10,969,992,000	3,781,511,000
TOTAL COLLECTION – regular and enforcement	28,349,215,000	27,104,215,000	11,655,752,000

With respect to Customs Agencies, importers must either pay duties and associated taxes up front or post a Bank Guarantee. Payments must be settled within 8 days of clearance and if not, the Bank Guarantee is applied. Potential arrears emanate from penalties and fines from non compliance. The following table implies that all import taxes due are collected as well as penalties.

Overview of Calculated and Paid Taxes by Customs (in 000 RSD)

Fiscal year	Import taxes calculated	Import taxes collected
2008	299,234,019	300,147,967
2009	253,811,757	255,367,571

The legal situation of some debts makes it difficult for Tax Administration to expunge most of the uncollectable debts from its records by writing them off. The data on debts stemming from public revenues provided by the Tax Administration cover debts that cannot be collected from different reasons such as: privatization (13% of total at end June 2010); bankruptcy (23% of total at end June 2010); and tax debt restructuring (less than 1%); money laundering and phantom companies (9%) and removal from the register (less than 1%); The remaining 54 per cent may be collectable debts.. However, there is no aging of debts as the Tax Administration is not tracking the age of debts and cannot provide data broken by that category, although it knows that there are debts that have been in existence for a long time. However, it has data on the total debts at the end of each year; The interest rate applied to debt amounts to 23% annually, so the debts have automatically grown irrespective of status. Some 10,000 non-liquid companies have been removed from the register through the automatic bankruptcy procedure, and some additional 4,000 companies are expected to be closed by the end of 2010.

As for all taxpayers having debt that are undergoing privatization in terms of their debt due on 31/12/2007, no regular collection or enforcement proceedings may be applied for the purpose of setting the claims as referred to in Article 20h of the Privatization Law ("Official Gazette of the Republic of Serbia", Nos. 38/01 ...123/07); as for enterprises undergoing restructuring no enforcement procedure for the purpose of setting the claims may be applied at all. In conformity with Article 64a of the Privatization Law, the person who initiates the enforcement (regular collection or enforcement proceedings) shall be fined from 100,000 to 300,000 dinars for economic offence. The Law on Amendments of the Privatization Law issued in the "Official Gazette of the Republic of Serbia, No. 23/2007" introduces the ban to apply any enforcement procedure for the purpose of setting the claims for enterprises undergoing restructuring and as for the enterprises in privatization this is valid for debts until 31/12/2007.

Bankruptcy - As for all taxpayers having debt that are in the bankruptcy procedure, from the day of opening of the bankruptcy proceeding no enforcement proceeding may be applied against the debtor or its assets in conformity with Article 93 of the Law on Bankruptcy ("Official Gazette of the Republic of Serbia", No 104/09). As for taxpayer in the process of restructuring and upon the adoption of the plan of reorganization in accordance with Article 155 of the Law on Bankruptcy, all claims and rights of creditors and liabilities of the bankruptcy debtor shall be defined by the plan of reorganization. The reorganization plan shall define debt payment terms as referred to in Article 156 of the Law on Bankruptcy, which can provide various options (from debt write-off to debt payment by instalment, etc.). The adopted plan of reorganization is a legally valid document and no enforcement proceedings may be applied aimed at debt collection.

Tax Debt Deferment – In conformity with Articles 73 and 74 of the Law on Tax Procedure and Tax Administration it is possible to defer tax debt but for no longer than 12 months under certain conditions. During the deferment period, provided that the taxpayer settles his agreed instalments duly, no enforcement proceedings may be applied.

Score D. However, this score would be considerably higher if the Tax Administration were in a position to write-off from its books uncollectable debt.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.

Payment of all taxes due is made directly into the account held in the Treasury. The Tax Administration takes over the data on the movements in the public revenue accounts from the Treasury electronically, on a daily basis, in a document called – Statement. Tax accounting is maintained so as to ensure comprehensive recording of the balances and movements in the accounts that pertain to receipts, allocations, refunds, accounting entry corrections, time apportionments, write-offs, statute of limitations, rescheduling, cancellations, and other types of tax accounting entries in the specified accounts.

Score A

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

In accordance with the Statement from the Treasury, the Tax Administration reconciles movements in the public revenue accounts with its tax accounting, which are then compared with the liabilities. In that way, the liabilities and the claims sides in the taxpayers' accounts are created, enabling daily monitoring of the stock of tax arrears or tax credit. In the analysis of each taxpayer's account, all tax liabilities declared by the taxpayer (self assessment), i.e. liabilities assessed in the tax decision, and all the liabilities ensuing from secondary tax liabilities are recorded at the liabilities side as well as on the claims side, all effected payments, and tax credit refunds are reconciled. In case a taxpayer's TIN is unknown, the receipt is recorded on a daily basis on a temporary TIN "deposit" account, which is settled daily by transfers to correct TIN number. In addition, tax accounting includes settlement and presentation of total interest charged by accounting periods, number of days, coefficients, and amounts of each individually charged interest, amount of interest charged for each tax payment and amount of interest arrears at the end of the account period for which the interest is accounted.

With respect to Customs, The Treasury sends statements of transfer accounts and payment accounts of the Customs Directorate on a daily basis. Reconciliation of data on payments of import taxes made as well as on returns is conducted on a monthly basis.

Score A

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	Score D+ (i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). Score D (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. Score A (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. Score A

PI-16 Predictability in the availability of funds for commitment of expenditures

(i). Extent to which cash flows are forecast and monitored.

The Macroeconomic and Fiscal Analyses and Projections Department prepares a monthly cash flow projection in line with annual budget forecast and adjust this on a monthly basis based on up-to-date revenue and expenditure information.

Score A

(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment.

A commitment ceiling by economic category for every Direct Budget Beneficiary (DBB) is set in the Financial Management Information System on a monthly basis ("quotas"), based on one-twelfth of the annual allocation in the budget and the available cash forecast (which may reduce the fraction). The information is available immediately to DBBs since they are on-line with Treasury. If necessary, it is possible to adjust quota in coordination with Budget Execution Department using electronic requests. DBBs are able to carry forward any unused quota in a month and even "borrow" from future allocations within the annual allocation to meet seasonality fluctuations. However any such "borrowing" is constrained by the total annual quota and any periodic rebalancing of the budget that may take place.

According to the defined ceilings, DBB can plan and inform their Indirect Budget Beneficiaries on the transfer schedule.

The Treasury is planning to introduce, based on improvement in financial planning, setting up a commitment ceiling for the whole year at the beginning of the year.

Score C

(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.

Adjustment to budget allocations (budget rebalance) is performed according to the Budget System Law through the same procedure for adoption of the budget by the Assembly (Article 47) which reads
"In the event that over the course of fiscal year a law or other regulation is adopted that results in the reduction of planned revenues or increase of planned expenditures, a decision shall be adopted whereby additional revenues or decreased expenditures are envisaged, for the purpose of achieving budget balance. In the event that over the course of fiscal year expenditures are increased or revenues decreased, budget balance shall be achieved by reduction of planned expenditures or introduction of new revenues. Budget balance shall be performed by means of supplementary budget, adopted in line with the procedure for budget adoption. No law or other regulation which envisages spending of public funds outside the budget may be adopted".

This also applies to financial plans of organizations for mandatory social insurance.

The adoption of the same process for Supplementary Budgets as for the Annual Budget makes the process transparent and the conditions under which these Supplementary Budgets are triggered are predictable.

Adjustment in the last three budget years are presented in the table. There was an election in 2007 and Government was not elected for quite a long time, so there was temporary financing as the new Government had not been established. Once the new Government was in place, a budget was adopted and not changed during 2007. In 2008 and 2009 the adjustments were made to accommodate the reduction in revenues experienced as a result of the economic crisis.

In million RSD

2009	Budget	Rebalance I 30.04.2009.	Rebalance II	
Inflows	698,756.200	649,357.997	614,986.971	
Outflows	748,612.903	719,854.142	719,854.143	
2008	Budget	Rebalance I 05.11.2008.	Rebalance II	
Inflows	698,756.200	649,357.997		
Outflows	748, 612.903	719,854.142		
2007.	Temporary financing	Temporary financing 30.04.2009.	Temporary financing 25.05.2007.	Budget 23.06.2007.
Inflows	130,317.250	260,634.500	255,095.700	581,841.505
Outflows	122,214.252	239,722.522	260,035.937	595,517.786

Score A

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	Score C+ (i) A cash flow forecast is prepared for the fiscal year and are updated monthly on the basis of actual cash inflows and outflows. Score A. (ii) MDAs are provided reliable information for one or two months in advance. Score C (iii). Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way Score A

PI-17. Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting

The Public Debt Administration, a subordinate body of the Ministry of Finance, is regulated by the Public Debt Law. The Administration is responsible for all areas relating to debt: negotiations on borrowing, T-Bills, inflows based on public debt, risk reduction, monitoring and analyzing position and changes on domestic and foreign financial markets, preparation of the strategy for public debt management, monitoring of borrowing of local authorities, monitoring of borrowing of legal entities when a guarantee is required, keeping records and conducting accounting operations related to public debt and financial reporting, financial information system management, making proposals for ban on participation in purchase of T-Bills on the primary market and other activities.

The Public Debt Administration, which was established in September 2009, is in possession of complete records of domestic and foreign debt. Records are updated and reconciled on a monthly basis. Reports encompass data on the public debt balances, public debt servicing, as well as data on foreign currency structure and interest rate structure are produced on a monthly basis and published in the monthly Public Finance Bulletin.

Score A

(ii) Extent of consolidation of the government's cash balances

Treasury has developed a new software system, JAFIN, complementing the move to a Single Treasury Account, which provides a daily calculation of cash balances for each account within the Single Treasury Account and automatic consolidation of such accounts, including all MSSOs (social, pension, health and unemployment), government controlled project accounts and local government accounts. JAFIN provides real-time monitoring of all accounts. The STA is denominated in local currency.

The Treasury system also includes accounts denominated in foreign currency at the National Bank of Serbia. These accounts are not part of STA (or JAFIN), but they are also actively managed on daily basis by Treasury and are consolidated daily.

Score A

(iii) Systems for contracting loans and issuance of guarantees.

The Minister of Finance negotiates borrowing on behalf of the Government and for the Republic and to conclude contracts of credit, i.e. to issue T-Bills as prescribed by Article 5 of the Public Debt Law within the following structure.

The Budget Law in any current year stipulates with whom, how much and for what purposes the Republic of Serbia may borrow directly, and it also defines to whom, in what amount, and for financing of which projects the Republic of Serbia may issue a guarantee in the same budget year. The National Assembly of the Republic of Serbia decides on the borrowing of the Republic by taking long-term credits, on the borrowing for financing investment projects, on issuing guarantees and counter guarantees, as well as on directly assuming an obligation in the capacity of a debtor based on the guarantee issued. The Government of the Republic of Serbia makes decision on issuing long-term T-Bills, unless otherwise specified by the law. The Minister of Finance decides on taking short-term credits for financing the budget deficit, the deficit of current liquidity and for refinancing the public debt, as well as on issuing short-term T-Bills.

The provisions of the law are fully complied with in practice.

Score B

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	Score A (i) Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly. Score A (ii) All cash balances are calculated daily and consolidated. Score A (iii) Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity. Score B

PI-18 Effectiveness of payroll controls

(i) Degree of integration and reconciliation between personnel and payroll data.

All State Administration bodies are integrated into the system for budget execution and all salaries of State Administration employees are paid through the Treasury.

One hundred and eleven entities are included in the payroll database fully administered by the Payroll Unit in Treasury classified by function, with over 10,000 employees and persons contracted for temporary and occasional jobs. The databases on employees in all entities whose payrolls are managed by the Treasury are based on verified (as accurate) documentation supplied by the Human Resource departments of the entities themselves. The databases are also directly linked to establishment of individual earnings and entity payrolls.

The Treasury is in the process of taking over the personnel database of organisations that are still not included in the payroll system that it manages (with the exception of the Ministry of Defence, Ministry of Interior and the Security Information Agency, for which only salary processing – loading into the system for budget execution is managed by the Treasury. The calculation and verification of payroll and maintenance of the personnel database are managed within these organisations)[19].

The verification process for employees of de-concentrated ministries and agencies is undertaken at the appropriate Treasury regional branch.

Besides the payment of salaries of employees in the State Administration, the Treasury has taken over, since 2007, the calculation and payment of salaries for elementary and secondary education, which encompasses 1,769 schools with more than 110,000 centrally-recruited and paid personnel. The payroll is verified at the level of the school before payment. Local Government payroll is managed at the individual local government and are paid through the local government account at the Treasury. These salary payments are outside the scope of a Central Government PEFA, but are included here to demonstrate the centralisation of the salary payment function.

All salary payments are paid through bank transfers into the employees account.

Score B

(ii) Timeliness of changes to personnel records and the payroll.

All necessary changes to the data base are performed timely on a monthly basis, on accurate documentation. Preparation for the next monthly payroll encompasses comparison of changes made with monthly records of attendance at work. Salary sheets as a final result of the monthly payroll contain all the necessary elements related to payroll and salary calculation, which provides full transparency. Retroactive adjustments are very rare.

Score A

(iii) Internal controls of changes to personnel records and the payroll.

The authority of employees in the Department responsible for Payroll is defined by procedures related to the level of access to data. On the basis of verified documented information, the accounting employee forms, amends and adjusts the database as necessary. He/she also performs essential reconciliation control of monthly work records, as well as control of the payroll itself. Updating system parameters is conducted at the administrator level (based on a checking process established by the Government, based on the highest and the lowest salaries for the current month, minimum earnings, prescribed rates for tax and contributions etc.). He/she is also in charge of procedural control of payroll. Access to the system is strictly limited to those authorised with log on records kept. The Head of the Sector's authority includes monitoring of amendments to legal regulations that control authorisation and payment of earnings, as well as the functioning of the entire system.

Score A

(iv). Existence of payroll audits to identify control weaknesses and/or ghost workers.

In 2009, the State Audit Institution performed the audit of business operations in 2008 in 14 State bodies. There were no objections in the SAI's findings in bodies covered by the audit, in the part related to the payroll and payment of salaries. It was stated that the authorization of salaries and wages was conducted in compliance with the legal regulations in force. In 2010, the audit of business operations of State bodies in 2009 will be continued.

Score C

[19] Only the procedure for verification of the system by the Treasury has been addressed.

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	Score C+ (i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Score B (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). Score A (iii) Authority to change records and payroll is restricted and results in an audit trail. Score A (iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years. Score C

PI-19 Competition, value of money and controls in procurement

(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold).

A new Public Procurement Law was (no. 96-XVI of 13.04. 2007) was enacted in December 2008, setting clear rules regarding the implementation of public procurement procedures and cases when negotiated procedures are allowed (no publishing of the public invitation to tender). This resulted in an increase in the percentage of procurements using open competition (open and restricted procedures) in 2009 compared to 2007 and 2008. 2009 saw open competition surpass 75% for the first time. Improvements have not been greater because of a lack of capacity (though officers have been trained to a higher standard) in the Public Procurements Office (PPO) and budget entities, whereby the efficient planning of procurements has not significantly improved.

A recent special law has been introduced in Serbia to benefit Serbian companies in particular in the construction sector which will run until December 2011. This potentially contradicts some of the gains made under the new Procurement Law. It can therefore be assumed that the statistics for open competition will suffer in 2010 and 2011.

Available data on public contracts awarded (see Table below) indicates that 76 percent of contracts above the threshold are awarded on the basis of open competition.

Selected Procurement Methods 2007-2009

Procurement method	**2007**	**2008**	**2009**
Open procedure	45%	42%	53%
Restricted procedure	27%	28%	23%
Negotiated procedure	28%	30%	24%

Source: Report on Public Procurement Contracts Awarded in Serbia, PPO 2009.

Score A

(ii) Extent of justification for use of less competitive procurement methods

The new Public Procurement Law sets a clear regulatory framework for the use of less competitive public procurement methods (negotiated procedures) in accordance with EU public procurement directives. The enforcement of the Law has resulted in the share of non-competitive methods being reduced from 30 percent in 2008 to 24 percent in 2009.

Interestingly, when looked at by value rather than numbers of procurement, the share using negotiated jumps to 39%, suggesting that negotiated procedures are used for a greater proportion of high value contracts.

However, there are still implementation issues requiring attention. According to data from the Public Procurement Agency, the use of the negotiated procedures for reasons of extreme urgency legally obliges a report to the Public Procurement Agency detailing reasons for the emergency. In about 20 percent of cases reasons given were not deemed acceptable by the PPO. This weakness represents about 0.7% of public procurements (20% of emergency procurements which in turn are 15% of negotiated procurements, which in turn are 24% of the total). It is considered that this weakness is negligible and represents a management weakness rather than an exploited loophole. Furthermore, most emergency procurements are carried out by SOEs under political pressure, but even these are in accordance with the regulations.

Score B

(iii) Existence and operation of procurement complaints mechanism

A process exists for submitting and addressing procurement complaints, but it is designed poorly, is located within the PPO, and does not operate in a manner that provides for timely resolution of complaints. It is also questionable whether it conforms to the new Procurement Law (in terms of its independence). The provisions of the new Public Procurement Law regarding the complaints procedure have not been implemented yet, with the National Assembly in July 2009 declining to ratify a new Complaints commission.

Score C

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	Score B (i) Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition. Score A (ii) Other less competitive methods when used are justified in accordance with regulatory requirements. Score B (iii) A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints. Score C

PI-20 Effectiveness of internal controls for non-salary expenditure

(i) Effectiveness of expenditure commitment controls.

The FMIS system in 2010 caters for budgeted, commitment and payment stages of any financial flow in line with actual cash availability. Commitments cannot be made without reference to what has been appropriated as a result of the Annual Buget Law, and cannot be entered into if the funds have not be appropriated and entered into the FMIS correctly. Treasury carries out a financial control function (5 staff). The information from a Budget Organization which enters into the FMIS is checked by the Treasury.

Score A

(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.

A working group led by the Ministry of Finance prepared a comprehensive policy paper on public internal financial control (PIFC), which was adopted by government in August 2009. The Budget System Law, which also includes the legal basis for PIFC, was adopted and entered into force in July 2009.

Managerial accountability and subsequent development of financial management control systems are still developing. Nevertheless, based on the FMC Rulebook, Development Strategy of Internal Financial Control in the Public Sector (IFKJ), and Annual report on FMC of public funds beneficiaries, 69 annual reports on financial management and control for 2009 show that 23 beneficiaries of public funds appointed managers for financial management and control (FMC), of which 11 founded a working group for FMC. Annual reports ennumerate internal acts defining the rules and procedures in the area of internal control in accounting, finance and public procurement, and risk management.

Given that managerial accountability and subsequent development of financial management control systems are still developing a Score C is warranted

(iii) Degree of compliance with rules for processing and recording transactions.

The FMC arrangements are relatively recent and cccording to annual FMC reports, in 2009, 44 beneficaries of public funds, representing some 32 per cent of expenditure[20], established internal controls in business processes including those related to the most important risks. The established internal controls ensure a quite high level of observance of procedures.

Score B

.	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	Score C+ (i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). Score A (ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. . Score C (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification. Score B

PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

Internal audit is conducted in line with the international internal auditing standards and regulations governing internal audit in the Republic of Serbia. Internal audit has been established and operationalised with the direct budget beneficiaries and organizations for mandatory social insurance capturing the predominant part of the budget. All budget beneficiaries that has established own internal audit function, in internal auditing arrangements apply international accepted internal audit standards. The systems are audited by internal auditors. The methodology of internal audit developed reflects the relevant international standards (ISPPIA).

[20] covers 32% of expenditure. Budget for 2009 in D mil. 719.854 and expenditure in D mil. 228.425

Eighteen direct budget beneficiaries at the level of the Republic are required toconduct internal audits. . Of these, 14 direct budget beneficiaries and 3 mandatory social insurance organisations have carried out internal audits which covers 75% of expenditure[21]. According to the CHU IA reports as of December 31, 2009 the number and distribution of internal auditors in the public sector is as follows:

	No	No of Internal auditors
Ministries	13	23
MSSO	3	31
Public enterprises	6	48
Agencies	2	10
Other	8	17
Total	32	129
Central Unit for Harmonization of financial management, internal control and internal audit)	1	8
Internal Auditors - Total 31/12/2009		137

Out of the 137 internal auditors, 92 of them attended training[22][23]. In their work, they fully apply system based audit and the scope covered eight main areas:
1 – Internal rules and procedures;
2 - Planning;
3 – Receipts and revenues;
4 – Public procurement and contracting;
5 – Wages and contributions paid to employees;
6 – Payments and transfers;
7 – Accounting and financial reporting;
8 – Information systems.

Score B

(ii). Frequency and distribution of reports

Public funds beneficiaries develop reports on internal audit regularly (as a result of each internal audit arrangement) and these are submitted to the bodies – subjects of audits. The reports may be submitted to the State Audit Institution at their request. Annual Reports on the Work of Internal Audit are submitted to the Central Unit for Harmonization, Ministry of Finance. The effective system of internal financial audits in the public sector is decentralised.

Score B

(iii). Extent of management response to internal audit findings

Internal auditors have given 1,632 recommendations for improvement of operation and reduction of identified risks to the acceptable level. 1,303 of these were implemented (in accordance with adopted action plans which provides timeframes for each recommendation) According to the Annual Report on the Status of the System of Internal Financial Control in the Public Sector of the Republic of Serbia, 79% of the recommendations given by the internal audits have been carried out.

Score B

[21] Budget for 2009 in D mil. 719.854 and expenditure in D mil 542.804.
[22] Evidence: The budget Law for 2009, Consolidated annual report on the internal financial control in the public sector (IFKJ) in 2009, questionnaires submitted by budget beneficiaries.
[23] The EC is to provide support to the CHU through consultancy TA in the near future.

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	Score B (i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time). Score B (ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI. Score B (iii) Prompt and comprehensive action is taken by many (but not all) managers. Score B

3.5. Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

There is a Single Treasury Account (STA). The Treasury conducts reconciliations of cash balances of direct budget beneficiaries (DBB) of bank accounts and records on payment transactions in its system of payment and clearance on a daily basis.

The FMIS has integrated the DBB accounts into a consolidated account of the Treasury, and the abolition of bank accounts of indirect budget beneficiaries (IBB) is planned and integrated fully into the FMIS system. The IBB accounts are maintained by the Treasury and each account is reconciled daily with a report to the IBB the following day.

Score A

(ii) Regularity of reconciliation and clearance of suspense accounts and advances.

There are no longer any suspense accounts. Travel advances must be reconciled through a report of use within 48 hours of the completion of the travel and unused funds returned.

Score A

	Minimum requirements (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	Score A (i) Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. Score A (ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. Score A

PI 23 Availability of information on resources received by service delivery units.

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

Information on the allocations to be transferred and available are generated within the FMIS system. There are two categories of budget beneficiaries: direct and indirect. The direct budget beneficiaries are involved on line into the integrated information system and access the information on proceeds in real time. The indirect budget beneficiaries such as schools and primary health clinics have their own transaction accounts to which transfers are made from the direct budget beneficiary under which they operate. Data on the actual transfers are compiled in financial reports at annual level as well as in quarterly reports and can be compared to what was planned at the budget stage.

The system does not record donations in kind but these are negligible if at all.

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score A (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.

PI 24. Quality and timeliness of in-year budget reports.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

The Law on the Budget System and the Rulebook on Standard Classification Framework and chart of accounts for the budget system prescribes a unified classification of data including organizations, economic, functional and programmatic classification and classification of expenditures and expenses per source of funding. This allows for preparation of budget and financial statements on the same basis thereby ensuring their comparability which is observed in practice. The FMIS caters for budgeted, commitment and payment stages of any financial flow.

Score A

(ii) Timeliness of the issue of reports

The Law on the Budget System defines the calendar of submission of financial statements of budget beneficiaries. The indirect budget beneficiaries draft quarterly reports on budget execution and submit them to respective direct beneficiaries within 10 days from the expiry of quarter, for planning and budget execution control purposes, in accordance with the Art. 8 – Periodic Reporting of the Decision of Budget Accounting.

The system for managing public funds includes all receipts and payments of direct budget beneficiaries. The reports allow for monitoring all flows towards beneficiaries, on current accounts against economic and functional classification, sources, programmes and projects. The expenditures are captured in the phase of liabilities and the phase of payments. The Treasury prepares daily reports on revenues and expenditures, monthly comparative overviews of budget execution relative to the plan, quarterly reports on generated income and expenditures and planned income and expenditures.

Score A

(iii) Quality of information

There are no significant flaws with respect to accuracy of data.

Score A

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Score A (i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. Score A (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. Score A (iii) There are no material concerns regarding data accuracy Score A

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Financial statements are complete and comprehensive and include information on revenue and expenditure, financial assets and liabilities and a balance sheet. Score A

(ii). Timeliness of submission of the Financial Statements.

The Law on Budget System defines the calendar of submission of financial statements of budget beneficiaries. The 2009 Draft Law on Final Statement was submitted within the prescribed timeframe, by 20 June 2010. The 2008 Draft Law on Final Statement was also submitted within the prescribed timeframe and was, for the first time, subject to audit by the State Audit Institution.

Score A

(iii). Accounting Standards Used.

Accounting standards were issued in a Decree in 2002 and subsequently updated. The Decree on budget accounting defined that accounts are to be prepared according to cash based IPSAS, and there is no arbitrary estimation of certain position (bad debts, contingent liabilities, impairment…) as with accrual accounting.

Financial statements are consequentlyprepared on the principles of cash basis of International Public Sector Accounting Standards (IPSAS).[24]

Score A

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	Score A (i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. Score A. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. Score A (iii) IPSAS or corresponding national standards are applied for all statements. Score A

3.6. External scrutiny and audit

PI-26: Scope, nature and follow-up of external audit

The (independent) SAI was established by Law in 2005 became operational in 2007 and produced its first audit report on 27 Nov 2009 on the Government budget. The SAI had 22 employees by end 2009 comprising of 8 auditors, 5 on the managing council with balance on support staff. By mid 2010, the number of auditors increased to 11 and the law was changed to permit higher salaries to further attract qualified auditors as the relative salary levels were consider too low. The new Act also created additional divisions from the initial two covering Budget Expenditure and Funds, and the National Bank to include separate divisions for Local

[24] There were recent reports that commented on Standards. The SAI comments were related to business processes not complying with rules – financial flows were correctly booked, but according to SAI there were regulation compliance issues. The IMF concerns were with consistency. How, having declared cash based accounting, there is a balance sheet, which is characteristic of accrual accounting, prepared under cash base accounting (statement of cash receipts). The IMF comment is not about accuracy of reports, but about concept of reporting.

Government, Public Utilities, MSSOs and a division for Value for Money Audit (efficiency, effectiveness and economy).

The SAI benefits from a cooperative arrangement with the Norwegian NAO until 2013. With its assistance, a Strategic Plan 2010-2015 is being produced which is expected to be completed by December 2010. The institution will prepare curriculum and exam programme for audit qualifications by the end of 2010. The audit methodology and Audit Manual will also be completed by the end of 2010.

(i) Scope/nature of audit performed (incl. adherence to auditing standards)

Auditing covered expenditures of the central government pertaining to minimum 50% total expenditures for 2008. The Republic of Serbia budget execution was audited as well as NBS operation in the part related to total public funds. This percentage refers to total expenditures of the bodies subjected to annual auditing and not the cause of transactions selected by auditors to control in these agencies. Audit covered also 14 entities, but only partially relating to high risk topics and this assessment was conducted as an integral part of the final statement. This assessment pertained to transactions solely and was conducted in line with international standards. With the assessment of financial statements, the State Audit Institution stressed the need to observe legislation, in particular the Law on Public Procurement and the Law in the Budget System.

In developing the report, international standard ISA 701 was used pertaining to modified auditor's report in case of a limited scope of auditing. With respect to this, SAI issued a disclaimer of opinion as the effect of the limited scope of auditing was so significant from the material aspect so that the auditor was not able to obtain sufficient satisfactory auditing evidence to base his opinion on financial statements i.e. to issue a positive/negative opinion.

The standards applied were not translated and published in the "Official Gazette" as stipulated in the Law on the State Audit Institution. However, it should be noted that international standards on auditing (issued by IFAC) were applied that are applicable in Serbia. The State Audit Institution became a member of INTOSAI in 2008 and of EUROSAI in 2009 and as such acquired the right to use the international auditing standards of these organisations. The State Audit Institution observed the opinions of its consultants – Office of the General Auditor of Norway –that audit conduct in the selection and application of certain standards was consistent with international practice.

The auditor reviewed all the financial statements as an integral part of the 2008 final budget statement and pointed to the irregularities identified in each of these.

The coverage in 2010 is to cover 7 Ministries in total as well as the financial statements of the Republic of Serbia and the coverage will be raised to 60 percent of expenditure and income.

Score C

(ii) Timeliness of submission of audit reports to legislature

In case of financial audit for 2008, and accompanying notes, the Ministry of Finance submitted to the auditor financial statements as part of the final statement on 15 June 2009, the report was made in 8 months – the State Audit Institution submitted it to the Parliament on 27 November 2009. All the partial audits carried out of ministries were not issued as separate reports but were consolidated into the one audit report issued by the SAI.

In 2010, audit reports on an individual ministry will also be issued along with the audited financial statements (including responses to the draft by the relevant Ministry). The envisaged timetable for 2010 will maintain the 2009 standard of reporting within 8 months, for the financial statements.

As in 2009 (for 2008 accounts), in 2010, the 2009 audits are due to be delivered in early December so the appropriate score is a C as although the audited financial statements are presented to Parliament within the B score 8 months, the audit reports are delivered in excess of 8 months from the end of the accounting period. By submitting the audit reports within the 8 months from the end of the accounting period, the score would be a B. Score C

(iii) Evidence of follow up on audit recommendations

The first financial audit report was made for 2008. There were no earlier reports of the State Audit Institution. The report was submitted to the Parliament but it did not discuss it in the official session. The report was discussed when the opinions of the auditor, Prime Minister, Minister of Finance and the Minister of Education were questioned by the Members of Parliament.

The Auditor report indicated irregularities about the facts established in functioning of the accounting system, internal controls and internal audits, harmonization of claims, management of liquid assets and responsibilities, harmonization of registers of donations, public debt, maintaining extra-balance registries and related to other issues explained in the notes. The SAI's remarks were in line with ISA 701. On these issues, formal comments of beneficiaries were submitted explaining causes of certain irregularities, and attempts to correct these in the part related to internal audit, registries of the main ledger of treasury, registries on public debt, etc, but there is no evidence as to whether the measures were implemented in line with the opinion on irregularities.

The plan for 2010 envisages issuing recommendations on a Ministry by Ministry basis which will allow for the monitoring of recommendations.

In February 2010, the SAI took 19 responsible persons (including 11 ministers[25]) to court based on the findings of the 2008 audit relating to misconduct relating to the operations of the BSL, public procurement regulations and budget decrees. These cases are all expected to be completed by the end of 2010, and a judgement has been handed down in one case so far. The charge was not accepted on the grounds that the responsible person was unaware of the misdemeanour and the SAI has appealed on the ground that ignorance is no defence. SAI have raised an issue with the length of time available to prosecute as is not consistent with the time table for auditing: prosecution has to be carried out within a year of the event, but given the lagged nature of auditing this is insufficient.

Score C

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	Score C (i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. Score C (ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). Score C (iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up. Score C

[25] There was a change of Government in July 2009, so if a minister changed both the new and old minister were indicted. In essence it was the person in charge of the organisation and the organisation that was being changed.

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature's scrutiny

The law on the Budget System defines procedures for adoption of the budget and for changes in the course of the year. The legal procedure stipulates that, along with the budget for a certain fiscal year, the Parliament also receives the Memorandum on Mid-Term Economic and Fiscal Policy, financial plans of mandatory social insurance organizations that the Parliament (due to substantial funds allocated to them through transfers) reviews in conjunction with the central government budget. The Memorandum establishes aggregates of particular relevance for definition of revenues and expenditures in the following year, which are thoroughly explained in the budget and presented to the Parliament. Structural reforms to be undertaken in the subsequent three years and sectoral priorities are outlined in the Memorandum. The Memorandum is not reviewed by the Parliament whereas the annual budget is. In a separate part of the budget, expenditures for the year for which the budget is adopted are shown in detail in line with the economic classification and per beneficiary. Revenues and earnings, expenditures and costs are shown in detail in the general part of the budget.

Score B

(ii). Extent to which the legislature's procedures are well-established and respected

Procedures for adoption of the budget, budget memorandum and plans of mandatory social insurance organisations are strictly defined and observed. However, there are no specialised reviewing panels and the procedures regulating negotiations as internal logistics of the arrangement.

Score B

(iii). Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle.

The Parliament has 1.5 months (45 days) to review the budget. The government submits the budget with the memorandum and financial plans of the mandatory social insurance organizations to the Parliament no later than on 1 November of the current year for the following year, and Parliament adopts the law no later than 15 December. In the meantime, budget proposals are discussed in a number of parliament bodies. This deadline cannot be extended for the following reasons: First, almost in every budget year, an end year a review of budget is passed as a basis for passing the following year's budget. Second, Law on Budget System contains earmarked transfers per budgets of local governments' units, whose scope and schedule have been allocated relative to GDP growth in the previous year. This data cannot be known in advance in order to speed up the budget cycle. A shorter than legally provided deadline for budget review in the Parliament for 2009 and 2010 budgets was conditioned by the assessment of the impact of the global economic crisis and the negotiations with IMF. Third, the prescribed content of the budget i.e. budget review exists. The rules for budget changes by the executive have been defined in the Law on Budget System and are being observed (use of standing and current budget reserves, possibility of changes of budget appropriations etc).

Although delays have been experienced in presenting the budget to the National Assembly (1st December in 2009), approval has still occurred before the end of the year (21st December in 2009), but this has been less than one month, but not significantly less than one month..

Score C

(iv). Rules for in year amendments to the budget without ex-ante approval by the legislature.

Clear rules exist concerning changes to the budget by the executive. Article 61 of the BSL allows for "Direct budget beneficiary, with the consent of the Minister, and/or local government finance authority, may redirect the appropriation approved for certain expenditure up to 5% of the appropriation being reduced. Direct budget beneficiary, with the consent of the Minister, and/or local government finance authority may redirect fund under a program up to 10% of the appropriation whose funds are being reduced. Reallocation of the appropriations relate to appropriations from revenues from the budget, while appropriations from other sources may be changed without limitation. An organization for mandatory social insurance, based on a decision of the manager of the organization for mandatory social insurance, may perform a reallocation of appropriations approved for particular expenditure in the amount of up to 5% of the appropriation value for the expenditure the amount of which is reduced and exceptionally, of over 5% for health care expenses."

Strict safeguards have been defined with respect to sums and nature of these changes which are being observed, but allow for considerable administrative reallocations.

Score B

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	Score C+ (i) The legislature's review covers fiscal policies and aggregates for the coming yearas well as detailed expenditure and revenue. Score B (ii) Simple procedures exist for the legislature's budget review and are respected. Score B (iii) The legislature has less than one month to review the budget proposals. Score C (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations. Score B

PI-28: Legislative scrutiny of external audit report

(i) Timeliness of examination of audit reports by the legislature

There has been only one audit report by the SAI to date. The procedures are stipulated in the Law on the State Audit Institution. The Law does not define a deadline for the review of the report by the legislative body, but is usually done within the year. The Law on the State Audit Institution prescribes that the report is first reviewed by the competent Finance Committee. This Committee, being a competent task force of the Parliament, submits its opinions and recommendations in the form of a report to the Parliament following review of the external auditor's report. On the basis of the important facts and circumstances noted in the report of the competent task force to the Parliament, the Parliament decides on the proposed measures and timeframes for their implementation.

The Law on the Budget System stipulates the final statement to be submitted to the Parliament as part of the law. It also unambiguously stipulates all the elements of the final statement, the financial statements and that external auditors should check these and provide opinions thereon. The Parliament discusses the law with all the financial statements and in conjunction with the auditor's report on impartiality and veracity of the submitted financial statements.

In case of a modified audit report, such as that of 2008 report, the Committee did not review the final statement in conjunction with the auditor's report in a way prescribed by the Law, and it would have required a positive or a negative opinion to be given. Formally, the Parliament has reviewed the report irrespective of the modality of this review, within the 6 months from the date of the submission of the report to the Parliament by the external auditor.

The discussion took place on 25 March 2010 at the Day for Responding to MP Questions related to the topic: “Financial effects, execution and control of the budget of the Republic of Serbia for 2008”, proposed by the caucus *For European Serbia/Za evropsku Srbiju*. The report was discussed in presence of the General State Auditor and his staff, the Prime Minister, Ministers of Finance and Education, in order to inform the public with the content of auditor's report, causes of irregularities. However, measures and the concrete final statement of the Republic budget for 2008 were not discussed. Numerous MPs posed questions.

Score B

(ii) Extent of hearings on key findings undertaken by the legislature

According to the current regulations, the legislative body should conduct detailed investigations into the most significant findings, including the competent employees of the agencies being audited. It has been regulated that should the auditor find the entity audited to be in grave violation of good business practices (e.g. failure to remove the irregularities identified by the auditor), the General Auditor files a request to the Parliament for dismissal of the person in charge (ministers elected by the Parliament in case of direct budget beneficiaries).

The legislative body did not conduct detailed investigations, nor has the auditor filed a request to the Parliament for dismissal of any person in charge. (However, as described in PI-26 (iii), the SAI instigated court proceedings with respect to perceived irregularities.)

Score D

(iii) Issuance of recommended actions by the legislature and implementation by the executive

In line with the current regulations, there is possibility for the legislative body to propose measures. These are implemented by the executive bodies in accordance with the existing evidence. The latest (first) auditor’s report did not contain recommendations for the legislative body to act upon, but this would not preclude comments being made, if so desired.

Score D

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	Score D+ (i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. Score B (ii) No in-depth hearings are conducted by the legislature. Score D (iii) No recommendations are being issued by the legislature. Score D

3.7. Donor practices

D-1 Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).

Direct Budget Support during the last three years was first scheduled and disbursed in 2009. The World Bank had discussions and negotiations on two loans which were included in the 2009 budget. These amounted to US$200 million (which on signing were increased to US$250 million). These loans were Development Policy Loans (split US$150 million for the private enterprise sector and $100 million for public expenditure). The two loans were signed in March 2009 and US$50 million was disbursed (private enterprise) in July 2009 with the balance carried over into the 2010 budget and disbursed in January 2010. The delays in disbursement arose as a combination of both Government and World Bank procedures. The additional US$50 million was included in the April 2009 Supplementary Budget.

The EC's support came under the "Budget Support Programme for Serbia under the IPA Transition Assistance and Institution Building Component for the year 2009" A first tranche of €50 million was disbursed in 2009 of a total of €100 million (the second and final tranche is scheduled for September 2010, though could slip as far as June 2011 according to the Financing Agreement), and was offered in response to the economic crisis facing the Serbian government, as well as furthering the objective of harmonization under the Paris / Accra Accords. IPA funding was reduced by a similar amount.

Interestingly, this EC arrangement is conditional on the embarkation of PFM reforms (amongst others) which, no doubt, would have been postponed otherwise. The initiation of the PEFA is one of the conditions for the release of the second tranche.

The annual deviation was about 65% for 2009 and there was no budget support in 2007 and 2008 which results in a Score of D for this dimension.

Score D

	2007	2008	2009	2010
Forecast	None	None	50 million EUR to be released by end 2009 US$200 million ($250 million in the April supplementary budget) to be released by end 2009	50 million EUR to be released in Q3 2010 US$200 Million to be released by end 2010
Outturn/Actual	None	None	50 million Euro and US$50 million (14/7/09) released by expected date. $200 million of approx. $315 million not disbursed – 65%	50 million EUR still to be released US$ 200 million released in Jan 2010

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

No quarterly disbursement schedule was agreed with either the World Bank or the EC (the World Bank disbursements were simply envisaged before the year end and for the EC, two tranches of €50 million each are envisaged approximately 9 months apart depending on the fulfillment of conditions for the second tranche). A quarterly disbursement schedule is required for a C score or above so the appropriate score is a D.

Score D

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	Score D (i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. Score D (ii) The requirements for score C (or higher) are not met.Score D

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid

(i) Completeness and timeliness of budget estimates by donors for project support.

Regarding the submission of budget estimates for donor funded projects, at least half of the donors provide information on estimated disbursements of aid for the coming fiscal year. However, no information provided is given with a breakdown consistent with the Government's budget classification but rather at the aggregated project/ program level. Furthermore, the information is also provided so late in the fiscal year that it cannot inform the setting of ceilings during the budget calendar. Proportions of aid by donor in 2009 are; EC – 66%, USAID – 10.7%, Germany - 4.5%, Sweden – 4% and Norway – 2.6%

Score D.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

Information on actual donor flows is provided annually rather than quarterly for the previous year's disbursements. Reporting on actual donor flows is carried out by nearly all donors.

Score D.

It should be noted that the ISDACON[26] website provides an overview of disbursed and allocated funds per donor and project

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	Score D (i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start. Score D (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget. Score D

D-3 Proportion of aid that is managed by use of national procedures.

(i) Overall proportion of aid funds to central government that are managed through national procedures.

Due to donor specific rules and requirements in the area of aid delivery (such as provision of

[26] ISDACON is the Information System for Development Aid Coordination, designed to facilitate effective programming and reporting on external aid to Serbia.

tied aid) national procedures are in most cases not used by donors. However, it should be noted that over the years, there is progress in using national procedures and systems for aid management. In 2008, only 6% of total aid disbursement was implemented through the national Treasury as specified in the SAI's Audit of the Final Budget Account. Given that the GBS was disbursed in late December 2009, it is fair to count this disbursement as providing for the 2010 budget. An extra €50 million then, with a further €50 million expected in September 2010 should significantly increase the proportion of aid managed using national systems in 2010.

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	(i) Less than 50% of aid funds to central government are managed through national procedures. Score D

4: Government reform process

4.1. Recent and on-going reform measures

The Sigma PFM Report[27] states that

> "in overall terms the capacity for sustainable reform needs to be enhanced and a clear strategy for financial management system reform needs to be developed and approved, putting an emphasis (among other issues) on clarifying the roles and responsibilities of the various stakeholders in the financial management process and on creating proper co-operation mechanisms.
>
> The existence of a clear reform agenda is especially needed, as currently strong emphasis should be placed on setting effective co-ordination mechanisms within the administration so as to avoid duplication of activities and to ensure the setting of clear responsibilities. Emphasis should also be placed on sequencing the activities for reform – the ambition and calendar of activities should be determined in proportion to the relative (political) instability in the country.
>
> There is a need to increase capacity in the area of expenditure prioritisation and to include expenditure decisions within a medium-term budget framework. These improvements can potentially be achieved with a proper design for the planned strategic planning framework. The work on further roll-out of programme budgeting should continue, especially as a useful start has been made with the five pilot ministries."

The EC is in the process of implementing a project "Support to the Ministry of Finance - Treasury Administration capacity building". This project is to build on the achievements to date with an overall objective to improve the efficiency, effectiveness and transparency in the expenditure of public funds. The purpose of the project is to build sustainable capacities[28] in the Treasury Administration and Debt Management Administration for:

- efficient budget execution;
- financial planning;
- budget accounting;
- reporting; and
- public debt and liquidity management.

The Ministry of Finance also has recognised the weaknesses in budget preparation. Budget beneficiaries received new guidelines for preparation of budget for 2011 and projections for 2012 and 2013 based on changes to the Budget System Law. It indicated that proposals for Financial Plan according to the Program Budget Methodology will be prepared by budget users which have done so in 2010[29]. However it also stated that "if other budget users estimate that they can prepare their budgets according to the Program Methodology, they are free to do so". Based on the BSL there is new obligation of defining priorities in financing, which is performed by Government, based on agreed proposal between Ministry of Finance and budget user. The Ministry of Finance prepare those priorities for budget year and two consequent years, based on proposals which had to be submitted by budget beneficiaries.

Since it is not possible to present such priorities using line budgeting, Ministry of Finance established a new methodology for preparation of Medium Term Financial Plans for BB using line budgeting, by introducing a term "purpose", through which those users can present their financial plans according to the established priorities. This represents, also, an important step toward implementation of Program Budgeting.

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[27] Op.cit.
[28] in accordance with the EU standards and the best practice in the respective areas
[29] Ministry of Commerce, Ministry of State and Local Government, Ministry of Health, Ministry of Education and Ministry of Religion

This new feature also enabled a new method for determining and presentation of ceilings by BB, so that is clearly presented which purposes are accepted within ceiling and in which amount, and which remained out of the ceiling.

While these changes recognise the weakness in budget preparation, their implementation will require support in building capacity.

4.2. Institutional factors supporting reform planning and implementation

On the institutional side there have been positive developments which bear well for the future. The creation and separation of the Treasury as the budget execution and accounting agency has left the remainder of the Ministry of Finance to focus on macroeconomic issues and budget formulation (the top down aspects of the MTEF). As well, the Ministry of Finance now takes the lead on establishing Financial Control and Internal Audit. The development of the Debt Management Unit ensures that debt issues are being addressed with the focus that they require.

The establishment of the (independent) State Audit Institution has allowed for the first time the auditing of financial statements of the Republic as well as the operations of MDAs – this fact alone points to the positive institutional developments underpinning the overall PFM reform programme.

Other institutional developments that have taken place the establishment of the CHU for PIFC and IA, and the changes to inspection arrangements. While the Public Procurement Agency has been established and is operating, the need for further action to implement public procurement reforms and the need for improvement in the register of public property are desirable. In recent year, the administration of tax and non-tax revenues has also been strengthened with donor support.

PFM reform requires government leadership and commitment. The uncertain political environment in Serbia has made PFM reform to a certain extent dependent on the EC accession agenda rather than a coherent internally owned PFM reform agenda A more systematic approach with a specific leadership team to take it forward would be a good idea as suggested by the SIGMA reports to ensure PFM reform was adopted on its own merits.

Annex 1: PEFA Indicators and Dimension Scores

2007 PEFA			2010 PEFA	
Indicator	Score	Explanation	Score	Explanation
A. PFM-OUT-TURNS: Credibility of the budget				
PI-1. Aggregate expenditure out-turn compared to original approved budget	A	Variance decreased from 6% in 2003 to 4% in 2005. In only one out of past three years (namely 2003), expenditure outturns deviated from the budgeted expenditure by more than 5% Between 2003 and 2005, total outturns as percentage of budgets have decreased, showing increased reliability of expenditure budgets. As the consolidated accounts for the Republic had not been presented to the National Assembly or been audited for the four fiscal years (2002-2005), the reliability of the available data is considered uncertain.	B	In each of the years, outturn is below budgeted expenditure for 2007 by 8.6%, for 2008 by 8.2% and for 2009 by 5.6%. Included are the expenditures of the MSSOs.
PI-2. Composition of expenditure out-turn compared to original approved budget	C	Expenditure deviation across the budgetary heads shows that the absolute value of the deviations as a percentage of total primary expenditure was as follows: 24.0% in 2003, 9.0% in 2004, and 7.9% in 2005. Deducting these percentages from the overall primary expenditure deviation for each year provides the following absolute measures by which variances in expenditure composition exceeded overall expenditure variance: 2003 – 17.8%, 2004 –6.2%, 2005 – 4.0%. The degree of deviation has declined drastically over the three years. The variance in 2003 was influenced by the political conditions during the preparation of the budget due to the Presidential elections in December 2002 as well as the formation of the Union between Serbia and Montenegro in early 2003	A	The variances in excess of the total deviation have been zero in each of the 3 years as all budget beneficiaries budget has been cut.
PI-3. Aggregate revenue out-turn compared to original approved budget.	A	Revenue performed consistently better than budgeted The position is largely explained by better-than-anticipated proceeds from the newly introduced VAT.	C	Outturn was just less than budgeted in 2007 but deteriorated to 11.4% in 2009. This reflected the worsening economic performance. In each year VAT and Excise outturn was below budgeted while non tax revenues exceeded the budget by as much as 56 per cent in 2008 and 29 per cent in 2009 which offset tax revenue shortfalls.

PI-4. Stock and monitoring of expenditure payment arrears.	C+ (i) C (ii) B	The stock of expenditure arrears for general government is significant. The adding of public enterprise arrears (estimated at 1.6 percent of GDP in 2004), ensures that total public sector expenditure arrears was around 5-6% of GDP. Marginal decline in value since 2004. The Government monitors the stock of expenditure arrears, at least on an annual basis. Data for identified expenditure categories and specified budget institutions appear to be incomplete as arrears information from public enterprises is not reported routinely	B (i) B (ii) B	After a huge increase in arrears of PE Roads of Serbia to suppliers, these arrears were almost repaid by the loans that Government of Serbia took from the commercial banks. Arrears of SSF include Health Fund and National Employment Agency. Arrears of SSF increased in the period, with NEA arrears decreasing but offset by Health Fund increases particularly for medicines. Arrears have fallen from 7.74 per cent of total expenditure in 2007 to 3.86 percent in 2009
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5. Classification of the budget	C	The Republic of Serbia's budgets for 2005 and 2006 have so far not been presented using functional classification (reflecting COFOG)). The MOF can produce data per functional classification, and in the budget memorandum 2006 the budget projections for 2006-2008 are presented as per functional classification. The budgets were presented using economic and administrative classifications only.	B	The 10 COFOG functions are used (although these can be disaggregated further to 34 sub functions, but these are not used). Presentation of the budget is mainly by administrative and economic classification though expenditure by broad functions is included in the Memorandum.
PI-6. Comprehensiveness of information included in budget documentation.	B	The budget 2006 contained summary information about six out of nine benchmarks Benchmarks (B) met are basic macroeconomic assumptions (B1); information about the overall fiscal deficit (surplus) (B2), debt stock (B4) and summarized budget data for both revenue and expenditure according to the main heads of the economic classifications (B8). The budget 2006 also provides information about how the budget surplus will be spent (B3). The budget and the budget memorandum was lacking basic information about the composition of financial assets (B5), prior year's budget or estimated outturn (B6) and explanation of budgetary implications of policy initiatives (B9).	B	The budget 2009 contained information on six of the nine benchmarks. Although exchange rate information is not included in the budget, it was used implicitly for the budget memorandum (Benchmark (B1). The budget and the budget memorandum was lacking basic information about the composition of financial assets (B5), prior year's budget or estimated outturn (B6) and explanation of budgetary implications of policy initiatives (B9).
PI-7. Extent of unreported government	B+ (i) A	The level of unreported government expenditure is insignificant and full inclusion of information on loans and at least 50% of grant funding is provided	B+ (i) A	The level of unreported government expenditure is insignificant and full inclusion of information on loans and at least 50% of grant funding is provided.

operations	(ii) B	No major unreported expenditures exist. The expenditures financed through "own-source revenues" are reported in the yearly financial statements while EBFs (other than MSSOs) are reported in the MOF's "Public Finance Bulletin" introduced in the fourth quarter of 2004. Aggregate data revenues provided for projects funded from both loans and grants were included in the annual budgets and annual financial statements. It is difficult to assess capital spending funded by foreign loans and grants as reported as "own source" revenues in the Budget Beneficiaries annual financial statements, This is probably not done consistently and many expenditures funded by such assistance have traditionally not been fully reported through the budget system.	(ii) B	No major unreported expenditures exist. All annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports include all revenues and expenditures. There are three types of funds that could be considered as analogous to Extra Budgetary Expenditures (EBEs) which are the MSSOs. However these are subject to the provisions of the Budget Systems Law in its entirety. Aggregate data revenues provided for projects funded from both loans and grants were included in the annual budgets and annual financial statements.
PI-8. Transparency of Inter-Governmental Fiscal Relations	B+ (i) A (ii) B (iii) B	The rules regulating allocations to Sub-national government are not fully transparent. Fiscal reports from sub-national governments are provided on a current basis. As of July 2006 Serbia has a new Law on Local Self-government Financing to make transfers more transparent and predictable by clearly defining sources of local revenues and establishing an explicit formula for distributing intergovernmental transfers. The local authorities are provided the Government-adopted Budget Memorandum six months in advance (June 1) of the scheduled submission of the budget to the National Assembly (November 1), proving sufficient time to make adjustment. Reporting and consolidation of fiscal operations has been improved but yet there is a room for further improvements. Fiscal reports of all sub-national governments are provided to the MOF in accordance with the budget economic classification on a monthly basis. The Monthly bulletin publishes these data separately for all municipalities and Vojvodina. Since 2006 municipalities also collect and report monthly fiscal operations based on functional classification, however these reports are not regularly published. Consolidation of all layers of government is done only annually.	B (i) C (ii) C (iii) A	The legal basis and determination of transfers to local governments from the centre is set out in detail in the Law on Local Government Finance enacted on January 1, 2007. A Commission for Intergovernmental Finances is established under the Law to ensure the principle of fairness, efficiency and transparency of intergovernmental finance and to propose recommendations for its improvement. the application in recent budget years has not followed the Law due to the economic situation which Serbia faced. While the planned transfers were set out in the 2009 Memorandum as envisaged, funds were cut by 15 billion dinar (37 per cent) in April and the remaining 26.6 billion dinar were not allocated according to the formulae. An alternative allocation methodology of no one local authority would get more than a 50 per cent cut and a per capita threshold of 3,000 dinar was established. The "suspension" of the process continued in 2010. Ministry of Finance receives, on monthly basis, data on the local government budgets and budget execution, for all cities and municipalities. Those data are used for reporting on consolidated general government movements and published in different MoF documents

PI-9. Oversight of aggregate fiscal risk from other public sector entities	C (i) C (ii) C	Although monitoring of financial performance is done, not all aspects are covered and there is no systematic, annual reporting of financial risks of public enterprises and sub national governments. Business plans of Public Enterprises founded by the Republic are submitted to the Government for adoption. Financial statements for the state owned enterprise are reported to the National Bank of Serbia and disclosed to the public. The Sector for Public Enterprises and State Assistance in the Treasury of MOF is regularly monitoring the financial performance of public enterprises while socially owned enterprises are monitored by Ministry of Economy. Public utility enterprises are monitored by local governments. Finally, the sector for Public Debt of the Treasury Department monitors public debt and issuance of guarantees. In the 2005 Republican government budget more than 7 percent of the budgeted expenditures consisted of subsidies to various non-financial public corporations. The budget document does not provide references to the legal basis for these corporations or information about the financial reporting requirements and only in some cases a brief description of the specific intended purpose of the subsidy. In July 2005, an IMF report concluded that the data quality for the large state-owned companies is poor and that more transparency and accountability is needed to address governance problems and improve public understanding of SSOE performance. Although the reporting on entities monitored by the sub-national governments have improved, not all aspects for public enterprises are covered and a consolidated overview is missing	D+ (i) D (ii) A	The Department for Economy and Public Enterprises in the Ministry of Finance does not estimate fiscal risks as such. Its concern, regarding public enterprises, is with microeconomic issues such as cost and incomes, prices under state control, employment policy, and the like. The Department does not receive any reports from individual companies and so is unable to distribute such reports to the responsible parts in the Government. It is not able to make a consolidated report. Local Authorities are permitted to borrow. Before each loan is contracted, the Local Authority must obtain approval from the Ministry of Finance. Each Local authority submits to the Ministry of Finance a statement on its borrowing status twice a year. Payment related to any loans is through the Treasury General Ledger and can be monitored.
PI-10. Public Access to key fiscal information	B	The government makes 3 of the 6 listed types of information available to the public. "(i) Annual budget documentation"; (ii) In-year budget execution reports; and "(v) Contract wards" are available to the public (iii) Year-end financial statements; (iv) External audit reports; and; (vi) Resources available to primary service units are not	A	Public access to key fiscal information is through the six criteria for the indicator.

		available		
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11. Orderliness and participation in the annual budget process	A (i) A (ii) B (iii) A	In keeping with the provisions of the Budget System Law, a budget circular (the Budget Memorandum) and an improved and clear budget calendar has been introduced and is largely adhered to. The budget process defined by the Budget System Law (BSL) allocates more time than the previous law to budget planning, preparation, scrutiny and debate. The BSL provides a clear timetable for budget submissions, which has largely been adhered to for the last three fiscal years. According to the BSL the National Assembly has 1.5 months to reach agreement on the budget (between November 1 and December 15). Simple procedures for the National Assembly's budget review exist and are generally respected. The Budget Memorandum is comprehensive and clear and includes indicative ceilings per economic and administrative, but not functional, classification. The strategic planning phase is however not recognized in the budget calendar, and more time is needed for line ministries' medium-term planning and budgeting under a medium-term budget constraint. It appears however that the Memorandum is almost exclusively produced by the responsible department of the MOF, with few indications of involvement by policy-makers or even other departments. Approval of the indicative ceilings in the Budget Memorandum takes place before Budget Beneficiaries have completed their submission	A (i) A (ii) A (iii) A	The new Budget Systems Law has introduced a budget memorandum which provides a fiscal framework for the following three years. The Memorandum on the Budget and Economic and Fiscal Policy for the year 2010 with projections for the years 2011 and 2012 was published in June 2009. For the first time, ministerial ceilings were introduced (just for the budget year) which also included the cost of new policies. The forecasts included in the Memorandum are updated as an input into the draft budget. The Budget System law (BSL) provides a clear timetable which has largely been adhered to for the last three fiscal years. Slippage has occurred largely as a result of adjustments being made after IMF missions, though such slippage has been made up later in the year, but still maintaining at least 6 weeks for line ministries to elaborate their submissions after the Budget Preparation Guideline, as well as achieving legislative approval before the start of the fiscal year. It should be noted that MTEF/strategic planning is not integrated into the timetable (PI – 12) given its infancy in Serbia. The Budget Preparation Guideline is comprehensive and clear and includes indicative ceilings previously approved by Cabinet (Vlada) by economic and administrative but not functional classification. According to the BSL, the National Assembly has 1.5 months to reach agreement on the budget (between November 1 and December 15). Although delays have been experienced in presenting the budget to the National Assembly (1st December in

				2009), approval has still occurred before the end of the year (21st December in 2009, 29th December in 2008 and 26th December in 2007). Simple procedures for the National Assembly's budget review exist and are generally respected. The IMF supports the Ministry of Finance's Budget Department with a resident advisor.
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C (i) C (ii) B (iii) D (iv) C	The Budget Memorandum contains key fiscal forecasts and sector strategies, but there is no link between strategies on one side and actual costing of investments and recurrent costs on the other. Debt sustainability analysis including external and domestic debt are undertaken regularly and published by the National Bank of Serbia on their website. Since the 2007 budget the Budget Memorandum covers three years on a rolling basis, but mainly due to weaknesses in the macro forecasting the links between multi-year estimates and subsequent setting of annual budget ceilings are not clear. Sector strategies are prepared for all key sectors but they do not include costing of investments and recurrent expenditure It appears from the Budget Memorandum, as well as from the practices observed, that many investment decisions have weak links to the sector strategies and in only a few cases are their recurrent cost implications brought forward in the budget estimates	C (i) C (ii) B (iii) D (iv) C	Multi-year fiscal forecasts are produced as part of the MTEF process and subsequently feed into the budget process. The Debt Management Unit (DMU) was established in September 2009 as a semi-autonomous institution thereby satisfying EC accession criteria. The Memorandum includes public debt sustainability as the ability of the Republic of Serbia to service regularly its liabilities to domestic and foreign creditors. It lists the main indicators of public debt sustainability as public debt and gross domestic product ratio; foreign public debt and export of goods and services ratio, and primary budget balance and gross domestic product ratio. The Memorandum provides a detailed analysis of these factors for the following three years. Sector strategies are prepared for all key sectors but, in the absence of a functioning MTEF, they do not include costing of investments and recurrent expenditure. Furthermore, varying proportions of sector investments are controlled by the National Investment Programme (NIP), rendering it difficult to plan for sectoral investments. The requirement for sector strategies as part of the amended Budget System Law will oblige ministries to provide strategies as part of the budget process which has so far been lacking. Capacity to do this will need to improve though 5 ministries were part of a pilot project. Investment planning is dislocated from the budget process in line ministries and there is a separate National Investment Programme and Ministry for Infrastructure. However the mid-

				term framework will be introduced in investment planning as a necessary condition in the process of defining strategic development projects.
C(ii) Predictability and Control in Budget Execution				
PI-13. Transparency of Taxpayer Obligations and Liabilities	B (i) B (ii) B (iii)C	Whereas a clear legal framework for tax procedures and administration is in place, transparency and appropriate protection for taxpayers against arbitrary rulings could still be improved. The rules and procedures for VAT are clear, and the introduction of new legislation has eliminated most tax exemptions and reduced the discretionary powers of the Tax Administration. Taxpayers appear to have relatively easy access (for instance through the internet) to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes. Whereas the information provided about VAT appear to be comprehensive, the information concerning incomes taxes appear less comprehensive, although advice is offered to clients, for instance through the Tax Administration's website. An appeals system has been established in accordance with the Tax Administration and Procedures Law (TAPL) Part 4. Accordingly, appeals can be submitted against first-level rulings. The second-level rulings are the responsibility of five units of the Tax Administration. In each case the procedure is authorized by the Minister of Finance, but the decision made by the relevant Tax Administration unit. Finally, tax cases can be tried in regular Court's with the Supreme Court as the ultimate instance of appeal. Whereas the tax appeals system has indeed been established, it appears that it still needs redesign to be considered fair, transparent and effective, as it appears to leave considerable discretion to the authorities and do not provide for arbitration in cases of dispute by an independent, specialized arbitration body (for instance a Tax Tribunal)	B+ (i) A (ii) B (iii) B	Tax revenue is collected through two separate departments Tax Administration and Customs Administration which are division of the Ministry of Finance. Each of these administrations has their own laws although some laws such as on VAT and Excises are applicable to both, as Customs collects these taxes on imports. Each Law sets out in detail administrative procedures and the coverage of taxes under its jurisdiction. Both Customs and Tax Administration places information on their websites and work with the Chamber of Commerce in disseminating information on tax matters. However neither Administration has a dedicated taxpayer education unit. The appeals mechanism for both Customs and Tax Administration follows the same process - resolution within the Agency before moving to a higher level. The tax procedure is regulated as a two-step process, which means that each decision-resolution adopted in the first instance procedure is subject to reconsideration in the second-instance appeals procedure. The second-instance tax decisions are subject to judicial scrutiny. A Tax Tribunal does not exist.
PI-14. Effectiveness of	B	The effectiveness of measures for taxpayer registration and tax assessment is moderately low and systems are not integrated,	B	Both Tax Agencies registration process is in cooperation with the Business Registers Agency (BRA), which has been competent

measures for taxpayer registration and tax assessment	(i) C (ii) A (iii) C	nor are practices harmonized. Taxpayers are registered in database systems for individual taxes, these systems are not fully and consistently linked to other relevant systems. Penalties for all areas of non-compliance are set sufficiently high to act as deterrence. There is a continuous program of tax audits and fraud investigations, including through an internal control group. Audit programs are not based on clear risk assessment criteria.	(i) B (ii) B (iii) B	for the registration of commercial entities from 2005. The timeline for taxpayer registration was reduced to a period of 24 hours, during which the Tax Administration is obligated to perform the registration and assign the TIN. An important improvement of the taxpayer registration process is the development of the software for the integrated registry within the Tax Administration, which should ensure the conditions for the integration of all types of taxpayers into one information system and the links with the information systems in other relevant state institutions, which has not been the case until now. The Laws regarding both Tax Agencies and the taxes that they administer stipulate penalties for non compliance. Both Tax Agencies consider that the value of the penalties is sufficiently high. Both Tax Agencies have audit systems based on risk assessment. For Tax Administration, the selection of taxpayers to be audited is preceded by the assessment of the risk level for each taxpayer. Custom Administration also uses its software as a tool for clearance and post clearance audit procedures. The risk criteria are entered into the software and an import is flagged for inspection should the risk criteria apply.
PI-15. Effectiveness in collection of tax payments	D+ (i) D (ii) A (iii) A	While the process for payments for of tax obligations is clear and reconciliation easy to meet, tax arrears are significant. As the privatization process is progressing the stock of arrears will decrease considerable. Arrears as % of total revenue at the end of 2004 and 2005 are 6.3% and 3.4%. The stock of arrears is influenced by the large number of state-owned enterprises in privatization process. According to the law on privatization the tax authorities (and other creditors) cannot collect their debt before the privatization process has come to a conclusion. The share of arrears from SOEs under privatization could be as high as 50%, but the information on collection ratio as well as total arrears segregated between companies in privatization process and the rest of the debt is not clearly reported by the tax	D+ (i) D (ii) A (iii) A	Tax arrears are high but would be considerably lower if the Tax Administration were in a position to write-off from its books uncollectable debt. Payment of all taxes due is made directly into the account held in the Treasury. In accordance with the Statement from the Treasury, the Tax Administration reconciles movements in the public revenue accounts with its tax accounting. With respect to Customs, The Treasury sends statements of transfer accounts and payment accounts of the Customs Directorate on a daily basis. Reconciliation of data on payments of import taxes made as well as on returns is conducted on a monthly basis.

		authorities. Tax revenues are paid into accounts controlled by the Treasury and each taxpayer can be identified. On a daily basis the Treasury provides information about account balances to the Tax Administration, which is then responsible for reconciliation and identification of arrears. Reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place monthly.		
PI-16. Predictability in the availability of funds for commitment of expenditures	C+ (i) B (ii) C (iii) C	The lack of predictability in availability of funds for commitment of expenditures hampers budget execution. Reallocations appear to be frequent although undertaken in accordance with current rules. Cash flow forecasts are prepared annually and updated quarterly based on information on actual cash inflows and outflows. Measures to "benchmark" budget institutions also in respect to the number of reallocations are being implemented Budget beneficiaries are provided information about commitment ceilings on a three months rolling basis, but ceilings are not always reliable and cause delays and disturbances in the task execution. Better projections on the revenue side are needed to improve the reliability. Section 7 of article 41 of the BSL establishes that appropriations may be redirected "for certain expenditures up to 5 percent of the appropriation for the expenditure being reduced" there are no explicit limitations on the number of such reallocations that can be made during the year. No statistical information about the frequency of budget reallocations done within the 5 percent limit or with MOF approval has been available but adjustments are frequent.	C+ (i) A (ii) C (iii) A	A commitment ceiling for every Direct Budget Beneficiary (DBB) is set in Financial Management Information System (FMIS) on the monthly basis ("quotas"). The information is available immediately to DBB since they are on – line with Treasury. If necessary, it is possible to adjust quota in coordination with Budget Execution Department using electronic request. According to the defined ceilings, DBBs can plan and inform their Indirect Budget Beneficiaries on the transfer schedule. MDAs are provided with reliable information for one or two months in advance. Adjustment to budget allocations (budget rebalance) is performed according to the Budget System Law through the same procedure for adoption the budget by the Assembly.
PI-17. Recording and management of cash balances, debt and guarantees.	B (i) B (ii) B (iii) B	The quality and frequency of debt recording and reconciliation is considered fairly high, debt records are complete. Domestic and foreign debt records are updated and reconciled on a quarterly basis. Information on the debt stock is published in the monthly Bulletin The available debt data is considered to	A (i) A (ii) A (iii) B	The Public Debt Administration is in possession of complete records of domestic and foreign debt. Records are updated and reconciled on a monthly basis. The recording and management of cash balances is carried out on a daily basis using the STA and the Treasury FMIS. Treasury has developed a new software system, JAFIN, complementing

		be of fairly high quality and complete. Calculation and consolidation of cash balances for some 9,000 Budget Beneficiaries with subaccounts in the PPA take place daily. Some of the MSSOs, including the Health Insurance Fund, do not make payments through the PPA system and perform their own reconciliations of cash balances (including the accounts of the 28 operating branch offices) in connection with the quarterly and annual reporting to the MOF. The MOF approves central government contracting of loans and issuance of guarantees, which are made within a limit for total debt and/or guarantees set in the annual budget laws. The BSL provides the general guidelines for the issuance of government guarantee, while more detailed criteria for issuing of guarantees are provided through provisions of the law on Public Debt.		the move to a Single Treasury Account, which provides a daily calculation of cash balances for each account within the Single Treasury Account and automatic consolidation of such accounts, including all MSSOs (social, pension, health and unemployment), government controlled project accounts and local government accounts. JAFIN provides real-time monitoring of all accounts. The Law specifies that the Minister of Finance is the only person authorized to make borrowing commitments and conclude loan agreements, as well as to issue government bonds on the Government's behalf and for the account of the Republic. Under extraordinary circumstances, the Minister of Finance can issue a decision authorizing a representative of the ministry competent for the financial affairs to enter into a loan agreement, i.e. issue of government bonds. The National Assembly votes on borrowing by the Republic through long-term loans, borrowing for the purpose of funding investment projects, issuing guarantees and counter-guarantees and direct assuming of liabilities as a debtor under guarantees issued by the Republic. The Government decides on the issuance of long-term securities. Long-term loans, or long-term government securities, as the case may be, are deemed to be loans or government securities with repayment terms extending into the future budget years. The Minister of Finance or a person within the Ministry responsible for finance authorized by the Minister decides on short-term borrowing for the purpose of financing budget deficit or current liquidity deficit, refinancing of public debt or issuance of short-term government securities.
PI-18. Effectiveness of payroll controls	C+ (i) B (ii) B (iii) B (iv) C	Whereas adequate systems to control payroll comparing with HR database system are being implemented, the lack of sufficient audit coverage does not ensure full integrity of data. Currently aggregated, central reconciliation between payroll and personnel data exists for around 170 DBBs. Primary and secondary schools will be covered early 2007 and army and police will be covered later in 2007. Payroll data seems to be	C+ (i) B (ii) A (iii) A (iv) C	All State Administration bodies are integrated into the system for budget execution and all salaries of State Administration employees are paid through the Treasury. The databases on employees in all entities whose payrolls are managed by the Treasury are based on accurate documentation supplied by the Human Resource departments of the entities bodies. The databases are also directly linked to establishment of earnings

		adequately documented and checked. It is the individual BB's personnel units that are responsible for updating the Ministry of Public Administration and Local Government on changes in personnel details, and submitting salary sheets to their respective ministries. Personnel data should be updated each month in connection with the submission of time sheets, while some retroactive adjustments are made occasionally The authority and basis for making changes to personnel records and payroll is clear. Since January 1, 2006 payroll has been managed and accounted for directly by the Treasury The internal audit has conducted audits of the pay-roll as part of most of their audits (15 in 2004 and 2005). However, because limited overall coverage of internal audit, these have been partial audits only.		and payrolls. The Treasury is in the process of taking over the database of bodies that are still not included in the payroll system that it manages (with the exception of the Ministry of Defence, Ministry of Interior and BIA – Security Information Agency, for which only salary processing – loading into the system for budget execution is managed by the Treasury). The Treasury has taken over, the calculation and payment of salaries for elementary and secondary education. All necessary changes to the data base are performed timely on a monthly basis, on accurate documentation. Preparation for the next monthly payroll encompasses comparison of changes made with monthly records of attendance at work. The authority of employees in the Department covering Payroll is defined by procedures related to the level of access to data. Updating system parameters is conducted at the administrator level (based on clearance established by the Government). In 2009, the State Audit Institution performed the audit of business operations in 2008 in 14 State bodies. There were no objections in the SAI's findings in bodies covered by the audit, in the part related to the payroll and payment of salaries. It was stated that the authorization of salaries and wages was conducted in compliance with the legal regulations in force.
PI-19. Competition, value of money and controls in procurement.	C+ (i) B (ii) C (iii) C	Public procurement management suffers from inefficiencies due to inadequate enforcement of competitive mechanisms, lack of clear justification for the use of less competitive procurement methods, and inefficient complaint mechanism. Although more than half of the procurement is made using open competition the required justification for the use of less competitive procurement methods as well as the operation of a satisfactory complaints mechanism is not adequate. Available data on public contract awards show that 69 per cent of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate.	B (i) A (ii) B (iii) C	Serbia adopted a new Law on Public Procurement in December 2008 and implementing legislation in July 2009. It has brought about several changes, such as certification of professional public procurement officials, introduction of e-procurement and establishment of an electronic public procurement portal, the possibility of court review in public procurement cases, introduction of anticorruption clauses and institutional independence of the public procurement bodies, notably the Public Procurement Office and the Commission for the Protection of Rights in public procurement matters. There are nevertheless certain shortcomings in the new legislation regarding the definition of public bodies, the scope of

		The legal framework is ambiguous when it comes to the preference for open and restricted versus negotiated procedures, evidenced by the use of negotiated procedures. Proper justification for use of less competitive procurement methods typically is weak or missing. A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.		exemptions and excluded contracts and the conditions for use of the restricted procedure.. Serbia needs to ensure the full implementation of the new Law The new law resulted in an increase in the percentage of procurements using open competition (open and restricted procedures) in 2009 compared to 2007 and 2008. The provisions of the new Public Procurement Law regarding the complaints procedure have not been implemented yet, with the National Assembly in July 2009 declining to ratify a new Complaints commission. A process exists for submitting and addressing procurement complaints, but it is designed poorly, is located within the PPO, and does not operate in a manner that provides for timely resolution of complaints.
PI-20. Effectiveness of internal controls for non-salary expenditure	C (i) C (ii) C (iii) C	In line with the provisions of the Budget System Law, financial controls of payments are carried out but appropriate procedures and practices for entering and currently monitoring large contractual obligations are missing. Direct Budget Beneficiaries are required to establish "financial services" to prepare and execute the budget. In some cases DBBs have appointed controllers that are independent of the financial services to perform ex ante checks of the legality of individual commitments and payments. In other cases legality is ensured via the double signature of the head of the DBB and the head of the financial service for authorizing commitments and payments. The existence of considerable payment arrears indicates that controls are only partially effective in limiting commitments to actual cash availability. Managers of the financial services are appropriately aware of the basic MOF regulations and internal procedures for authorizing commitments and payments. Whereas ex ante controls for even small transactions are clearly regulated and routinely carried out, written procedures and appropriate practices for approving and monitoring the	C+ (i) A (ii) C (iii) B	The FMIS system caters for budgeted, commitment and payment stages of any financial flow. Commitments cannot be made without reference to what has been appropriatedas a result of the Annual Buget Law, and cannot be entered into if the funds have not be appropriated and entered into the FMIS correctly. Based on the FMC Rulebook, Development Strategy of PIFC unit and Annual report on FMC of public funds beneficiaries, 69 annual reports on financial management and control for 2009 show thatt 23 beneficiaries of public funds appointed managers for financial management and control (FMC), of which 11 founded a working group for FMC. Annual reports ennumerate internal acts defining the rules and procedures in the area of internal control in accounting, finance and public produrement and risk management. According to annual FMC reports, 44 (32% of expenditure) beneficaries of public funds established internal controls in business processes including those related to the most important risks. The established internal controls ensure a quite high level of observance of procedures.

		implementation of contracts are not in place. While rules are complied with for a majority of transactions, the use of simplified procedures in unjustified situations is a matter of concern.		
PI-21. Effectiveness of Internal Audit	C+ (i) C (ii) C (iii) A	The Ministry of Finance has established an IAU within the Budget Inspection and Audit Department but it has very limited staff capacity to audit and assess financial management and control systems of all Budget Beneficiaries. Follow-up of the audits has been prompt. Serious efforts have gone into developing methodological guidelines and training of staff. Internal audit is deemed functional for at least the most important central government entities. The MOF IAU's audits comprise systems evaluating and monitoring elements. The internal audit methodology reflects relevant international standards (ISPPIA) it does not yet cover all audit areas. IAU staff is deemed to spend at least half their time on systemic issues. The follow-up of the reports have been prompt and comprehensive for the first two years of operation. Available staff resources for the Budget Inspectorate and the MOF's Internal Audit Unit (IAU) are extremely limited. In 2004 and 2005, the MOF's IAU carried out 15 audits, producing approximately 300 recommendations. Audit reports are submitted to and discussed with the audited entity, but as the SAI is not established. The legal framework for internal audit is still to be completed and the MOF's IAU needs to be fully staffed. Similarly, managers across the administration need to be better informed about the role of internal audit.	B (i) B (ii) B (iii) B	Internal audit is conducted in line with the international internal auditing standards and regulations governing internal audit in the Republic of Serbia. Internal audit has been established and operationalized with the direct budget beneficiaries and organizations for mandatory social insurance capturing the predominant part of the budget. The systems are audited by internal auditors. The methodology of internal audit developed reflects the relevant international standards (ISPPIA). The obligation to conduct internal audits is set out with respect to 18 direct budget beneficiaries at the level of the Republic. Of these, 14 organisations and 3 mandatory social insurance organisations have carried out internal audits covering 76% of expenditure. Direct budget beneficiaries develop reports on internal audit regularly and these are submitted to the bodies – subjects of audits as well as to the respective line ministries. The reports may be submitted to the State Audit Institution at their request. Annual Reports on the Work of Internal Audit are submitted to the Central Unit for Harmonization, Ministry of Finance. Internal auditors have given 1,632 recommendations for improvement of operation and reduction of identified risks to the acceptable level. 1,303 of these were implemented. According to the Annual Report on the Status of the System of Internal Financial Control in the Public Sector of the Republic of Serbia, 79% of the recommendations given by the internal audits have been carried out in accordance with the annual plans.
C(iii) Accounting, Recording and Reporting				

PI-22. Timeliness and regularity of accounts reconciliation	B+ (i) A (ii) B	Bank accounts for ministries and other Direct Budget Beneficiaries are reconciled and cleared daily, whereas accounts of Indirect Budget Beneficiaries (such as primarily schools and health institutions) are not and may have idle balances. Suspense and advance accounts are cleared at least annually. The Public Payment Agency (PPA) which was merged with the Treasury on August 1, 2005, performs daily reconciliations between the cash balances of Direct Budget Beneficiaries (DBBs) bank accounts and transaction records in its payments and accounting systems. Suspense and advance accounts are cleared at least annually. Some accounts may have uncleared balances brought forward	A (i) A (ii) A	The Treasury conducts reconciliations of cash balances of direct budget beneficiaries (DBK) of bank accounts and records on payment transactions in its system of payment and clearance on a daily basis. There are no longer any suspense accounts. Travel advances must be reconciled through a report of use within 48 hours of the completion of the travel and unused funds returned.
PI-23. Availability of information on resources received by service delivery units	B	Information about cash resources received by primary service units is available at least on an annual basis. Accounting and transactions systems managed by the PPA and the Treasury provide reliable information on all cash resources received by primary schools and health care institutions. The institutions do not receive in-kind resources. It is not clear to what extent reports are being produced and utilized based on the available information	A	Information on the allocations to be transferred and available are generated within the FMIS system. There are two categories of budget beneficiaries: direct and indirect. The direct budget beneficiaries are involved on line into the integrated information system and access the information on proceeds in real time. The indirect budget beneficiaries have their transaction accounts to which transfers are made from the different levels of the government. The planned use of transferred funds is in line with financial plans of the competent direct budget beneficiaries. Data are compiled in financial reports at annual level as well as in quarterly reports.
PI-24. Quality and Timeliness of in-year budget execution reports	B+ (i) B (ii) A (iii) B	Monthly and quarterly budget execution reports are submitted by Direct Budget Beneficiaries to the Ministry of Finance following a standard Chart of Accounts. Comparison to original budget figures is possible for main administrative headings using data from a MOF data bulletin, but only with some recalculation of certain headings. Expenditures are captured both at the commitment and at the payment stage, and are submitted to the Treasury at the same time. The Treasury prepares monthly and quarterly summary reports	A (i) A (ii) A (iii) A	The Law on the Budget System and the Rulebook on Standard Classification Framework and chart of accounts for the budget system prescribes a unified classification of data including organizations, economic, functional and programmatic classification and classification of expenditures and expenses per source of funding. This allows for preparation of budget and financial statements on the same basis thereby ensuring their comparability which is observed in practice. The FMIS system caters for budgeted, commitment and payment stages of any financial flow. The Treasury prepares daily reports on revenues and

		with expenditure breakdowns as per economic classification. Reports on cash flows and monthly revenue reports are produced from the Treasury's accounting system typically within four weeks of the end of the previous month The implementation of a new chart of account, generally consistent with GFSM 2001, is being implemented. Although there is a lack of adequate independent assurance mechanism, there is no other indication to question the accuracy of the accounting also when comparing in-year reporting with the annual financial statements produced. The Bulletin does provide an explanation on the methodology used. Still, this does not fundamentally compromise overall consistency and usefulness		expenditures, monthly comparative overviews of budget execution relative to the plan, quarterly reports on generated income and expenditures and planned income and expenditures. The indirect budget beneficiaries draft quarterly periodic reports on budget execution and submit them to respective direct beneficiaries within 10 days from the expiry of quarter, for planning and budget execution control purposes. There are no significant flaws with respect to accuracy of data.
PI-25. Quality and timeliness of annual financial statements.	D (i)n/s (ii)n/s (iii)n/s	Consolidated annual financial statements for the fiscal years 2002, 2003, 2004 and 2005 have not been presented to the National Assembly for approval. Transaction data for the four fiscal years 2002-2005 are readily available from the PAA. The MOF has on-time produced the financial statements for the relevant years. No consolidated annual statements have been presented to the National Assembly. The provisions of the BSL set the deadline for submission of the final consolidated statement to the National Assembly as June 1 in the year following the fiscal year. The BSL's provisions have therefore not been complied with for the last four fiscal years. Due to the National Assembly's lack of timely decisions the statements have not been audited and the SAI Council not been established.	A (i) A (ii) A (iii) A	Financial statements are complete and comprehensive and include information on revenue and expenditure, financial assets and liabilities and a balance sheet. The Law on Budget System defines the calendar of submission of financial statements of budget beneficiaries. The 2009 Draft Law on Final Statement was submitted within the prescribed timeframe, by 20 June 2010. The 2008 Draft Law on Final Statement was also submitted within the prescribed timeframe and was, for the first time, subject to audit by the State Audit Institution. Financial statements are prepared on the principles of cash basis of International Public Sector Accounting Standards (IPSAS).
C(iv) External Scrutiny and Audit				
PI-26. Scope, nature and follow-up of external audit.	D (i)n/s (ii)n/s (iii)n/s	External, independent audit is still to become reality. A law on the State Audit Institution was adopted by the National Assembly in November 2005 but no decisions on appointments or other actions have yet been taken to set up a functional institution. A sub-committee under the Finance Committee of the National Assembly has been responsible for preparing the establishment	C (i) C (ii) C (iii) C	The Audit in 2009 of the 2008 Financial Statement was the first since the SAI was established. The Audit covered expenditures of the central government pertaining to minimum 50% total expenditures for 2008. The RS budget was reviewed as well as NBS operation in the part related to total public funds. International standard ISA 701 was used – a modified auditor's report in case of a limited scope of auditing. The standards

		of a Supreme Audit Institution (SAI). The finalization of the constitutional and legal framework for establishing an SAI has been expected and under way for a number of years, and was a short term recommendation in the 2002 CFAA. The National Assembly and the Government has received advice and support from several multi-lateral and bi-lateral donors in the process of conceptualizing the establishment of an SAI. On May 18, 2005 the OSCE mission to Serbia and Montenegro organized and hosted a seminar to present and discuss the draft law. On November 14 2005, the law was formally adopted by the National Assembly but none of the formal appointments of the State Audit Institution's top management, a Council consisting of a President, a Vice President, and three members, have yet been made.		applied were not translated and published in the "Official Gazette" as stipulated in the Law on the State Audit Institution. However, IFAC auditing standards were applied that are applicable in Serbia. The State Audit Institution became a member of INTOSAI in 2008 and of EUROSI in 2009 The Ministry of Finance submitted to the auditor financial statements as part of the final statement on 15 June 2009, the report was made in 8 months – the State Audit Institution submitted it to the Parliament on 27 November 2009. The report was submitted to the Parliament but it did not discuss it in the official session. The report was discussed when the opinions of the auditor, Prime Minister, Minister of Finance and the Minister of Education were questioned by the MPs. Auditor's report indicates irregularities about the facts established in functioning of the accounting system, internal controls and internal audits, harmonization of claims, management of liquid assets and responsibilities, harmonization of registers of donations, public debt, maintaining extra-balance registries and related to other issues explained in the notes. The SAI's remarks were in line with IFAC ISA 701. On these issues, formal comments of beneficiaries were submitted explaining causes of certain irregularities, and attempts to correct these in the part related to internal audit, registries of the main ledger of treasury, registries on public debt, etc, but there is no evidence as to whether the measures were implemented in line with the opinion on irregularities.
PI-27. Legislative scrutiny of the annual budget law.	C+ (i) C (ii) B (iii) B (iv) B	The budget calendar and procedures allow the National Assembly enough time for a meaningful budget debate but the budget does not include detailed estimates of revenue sources or medium term frameworks to guide the debate. The National Assembly's review of the annual draft budget includes consideration of fiscal policies and aggregates for the coming year and detailed estimates of expenditure.	C+ (i) B (ii) B (iii) C (iv) B	The law on the Budget System defines procedures for adoption of the budget and for changes in the course of the year. The legal procedure stipulates that, along with the budget for a certain fiscal year, the Parliament also receives (but does not review) the Memorandum on Mid-Term Economic and Fiscal Policy, financial plans of mandatory social insurance organizations that the Parliament (due to substantial funds allocated to them through transfers) reviews in conjunction with the central

		Basic procedures for the legislature's review of the Budget are set out in the BSL, the Budget Memorandum and actual budget document and are largely respected According to the BSL, the National Assembly has 1.5 months to reach agreement on the budget (between November 1 and December 15). Whereas clear rules exist for in-year budget amendments by the executive, which are usually respected, they do allow for extensive administrative allocations The revenue budget is, however, only presented at a very aggregate level. Whereas the Budget Memorandum that accompanies the budget also comprises some aggregate estimates for the subsequent three fiscal years, these are not presented in the actual budget, nor detailed as per economic or administrative classification.		government budget. The Memorandum establishes aggregates of particular relevance for definition of revenues and expenditures in the following year, which are thoroughly explained in the budget and presented to the Parliament. In a separate part of the budget, expenditures for the year for which the budget is adopted are shown in detail in line with the economic classification and per beneficiary. Revenues and earnings, expenditures and costs are shown in detail in the general part of the budget. Procedures for adoption of the budget, budget memorandum and plans of mandatory social insurance organisations are strictly defined and observed. However, there are no specialised reviewing panels and the procedures regulating negotiations as internal logistics of the arrangement. The Parliament has 1.5 months (the government submits the budget with the memorandum and financial plans of the mandatory social insurance organizations to the Parliament no later than on 1 November of the current year for the following year, and Parliament adopts the law no later than 15 December). In the meantime, budget proposals are discussed in a number of parliament bodies. However recently this has been less that 30 days in practice. Clear rules exist concerning changes to the budget by the executive under Article 61 of the BSL. Strict safeguards have been defined with respect to sums and nature of these changes which are being observed, but allow for considerable administrative reallocations.

PI-28. Legislative scrutiny of external audit report	D (i)n/s (ii)n/s (iii)n/s	No external audit of the most recent years of the consolidated government accounts has taken place. Apart from contributing to the drafting of a legal base for the establishment of an SAI, the National Assembly has launched a public tender for a firm to undertake the audit of the 2002, 2003 and 2004 consolidated accounts of the Republic. Despite the fact that provisions in the 2002 BSL allowed for an audit of the consolidated financial statements to be contracted out to an audit firm, the tender for the independent external audit was only initiated in 2005. An inconclusive tender for the external audit of the 2002 and 2003 government accounts was launched by the MOF on February 8, 2005. The selection was subsequently left to be taken by the National Assembly on the recommendation of a working group appointed by the Assembly's Finance Committee on September 13, 2005. On February 7, 2006 the National Assembly's Finance Committee endorsed the recommendation of its working group to let the Secretary of the Assembly initiate the tender for the audit of the consolidated Government accounts for 2002-2004. The tender for the audit of the 2005 accounts has not been launched yet.	D+ (i) B (ii) D (iii) D	There has been only one audit report by the SAI to date. The procedures are stipulated in the Law on the State Audit Institution. The Law does not define a deadline for the review of the report by the legislative body. The Law on the State Audit Institution prescribes that the report is first reviewed by the competent Finance Committee. In case of a modified audit report, such as that of 2008 report, the Committee did not review the final statement in conjunction with the auditor's report in a way prescribed by the Law, and it would have required a positive or a negative opinion to be given. Formally, the Parliament has reviewed the report irrespective of the modality of this review, within the 6 months from the date of the submission of the report to the Parliament by the external auditor. The discussion took place on 25 March 2010 at the Day for Responding to MP Questions related to the topic: "Financial effects, execution and control of the budget of the Republic of Serbia for 2008", proposed by the caucus *For European Serbia/Za evropsku Srbiju*. The report was discussed in presence of the General State Auditor and his staff, the Prime Minister, Ministers of Finance and Education, in order to inform the public with the content of auditor's report, causes of irregularities. However, measures and the concrete final statement of the Republic budget for 2008 were not discussed.. Numerous MPs posed questions. According to the current regulations, the legislative body should conduct detailed investigations into the most significant findings, including the competent employees of the agencies being audited. It has been regulated that should the auditor find the entity audited to be in grave violation of good business practices (e.g. failure to remove the irregularities identified by the auditor), the General Auditor files a request to the Parliament for dismissal of the person in charge (ministers elected by the Parliament in case of direct budget beneficiaries). The legislative body did not conduct detailed investigations, nor

				has the auditor filed a request to the Parliament for dismissal of any person in charge. In line with the current regulations, there is possibility for the legislative body to propose measures. These are implemented by the executive bodies in accordance with the existing evidence. The latest auditor's report did not contain recommendations for the legislative body to act upon.
D-1. Predictability of Direct Budget Support	D (i)n/s (ii)n/s	In recent years only the World Bank has provided budget support to Serbia in the form of structural adjustment operations and, in 2005, Development Policy Lending. Due to the many problems in fulfilling on time all conditionalities it has not been possible to make firm quarterly disbursement estimates before the beginning of the fiscal year for the last three years and budget support has fallen short of forecasts by more than 15 percent.	D (i) D (ii) D	The annual deviation was about 65% for 2009 and there was no budget support in 2007 and 2008. No quarterly disbursement schedule was agreed with either the World Bank or the EC (the World Bank disbursements were simply envisaged before the year end and for the EC, two tranches of €50 million each are envisaged approximately 9 months apart depending on the fulfillment of conditions for the second tranche).
D-2. Financial information provided by donors for budgeting and reporting on project and programme aid	D+ (i) C (ii) D	At least half of donors provide complete budget estimates for coming fiscal year three months prior to its start. Quarterly reports on disbursements of less than 50 percent of the externally financed project estimates in the budget are provided by donors within two months of end-of-quarter. The ISDACON website provides an overview of disbursed and allocated funds per donor and project. The Inter-Sectoral Development and Aid Coordination Network (ISDACON) w as formally established as the network of units for international cooperation with the mandate to proactively program, coordinate, manage and monitor international assistance. The purpose of ISDACON is to facilitate collection and disbursement of data within the Government of Serbia. It is expected to facilitate policy making within the Government of	D (i) D (ii) D	Regarding the submission of budget estimates for donor funded projects, at least half of the donors provide information on estimated disbursements of aid for the coming fiscal year. However, no information provided is given with a breakdown consistent with the Government's budget classification but rather at the aggregated project/ program level. Furthermore, the information is also provided so late in the fiscal year that it cannot inform the setting of ceilings during the budget calendar. Proportions of aid by donor in 2009 are; EC – 66%, USAID – 10.7%, Germany - 4.5%, Sweden – 4% and Norway – 2.6% Frequency and coverage of reporting by donors on actual donor flows for project support. Information on actual donor flows is provided annually rather than quarterly for the previous year's disbursements. Reporting on actual donor flows is carried out by nearly all donors.

		Serbia from the aspect of international assistance and to promote proactive planning in order to ensure that aid complements budget planning process and reforms towards EU integration and PRSP implementation. Also, the unpublished annual financial statements for 2004 and 2005 include budget and outturn for all loans and at least 50% of grants Based on the unaudited financial statements comparing budget outturn and budgets it is estimated that in terms of submission of budgets on donor flows that at least half of donors provide complete budget estimates for coming fiscal year at least three months prior its start. It is estimated that quarterly reports on disbursements of less than 50 percent of the externally financed project estimates in the budget are provided by donors within two months of end-of-quarter.		
D-3. Proportion of aid that is managed by use of national procedures	D	Due to the lack of confidence in the fiduciary system in Serbia national procedures are generally not used by donors.	D	Due to donor specific rules and requirements in the area of aid delivery (such as provision of tied aid) national procedures are in most cases not used by donors. However, it should be noted that over the years, there is progress in using national procedures and systems for aid management. In 2008, only 6% of total aid disbursement was implemented through the national Treasury as specified in the SAI's Audit of the Final Budget Account. Given that the GBS was disbursed in late December 2009, it is fair to count this disbursement as providing for the 2010 budget. An extra €50 million then, with a further €50 million expected in September 2010 should significantly increase the proportion of aid managed using national systems in 2010.

Annex 2: Meetings

21th june 2010.

Time	Institution	Address
10:00	Tax Administration - Ms Radmila Jugovic, Deputy director	3-5 Save Maškovića Street Hall/office 106
13:00	Customs Administration – Ms Gatic Dubravka, Deputy director ...	155a Bul. Zorana Đinđića V (fifth) floor

22th .june 2010.

Time	Institution	Adress
10:00	Ministry of Finance – Department of Macroeconomic and Fiscal Analyses and Projections – Ms Jelena Rancic, deputy minister	20 Kneza Miloša Street
12:00	Republic Fund for Pension and Disability Insurance – Ms Slazica Zec, Deputy financial director …	9 Dr Aleksandra Kostića Street III (third) floor
15:00	Ministry of labour and social policy	22-24 Nemanjina Street

23th .june 2010.

Time	Institution	Address
10:00	Ministry of Finance, Budget department, local authority transfer	20 Kneza Miloša Street
13:30	Republic Institute for Health insurance service – Mr Petronije Dagovic, Director for economy department ….	2 Jovana Marinovića Street
15:00	Standing Conference of Towns and Municipalities – Mr Aleksandar Bucic, Assistant to Secretary General for finance	22 Makedonska Street

24th .june 2010.

Time	Institution	Address
?	NATIONAL EMPLOYMENT SERVICE	

09th july 2010.

Time	Institution	Address
09:00	Budget execution department	Treasury, II floor
11:00	Accounting and reporting department	Treasury, II floor
13:00	Public payment and fiscal statistic	Treasury, II floor

12th .july 2010.

Time	Institution	Address
09:00	Ministry of Finance, Budget department	20 Kneza Miloša Street
11:00	Central unit for harmonization	20 Kneza Miloša Street, Office no 218
14:00	Public debt administration	Treasury, II floor

13th .july 2010.

Time	Institution	Address
09:00	State Audit Institution	41 Mekenzijeva Street
11:00	Payroll department	Treasury, II floor
14:00	Customs Administration	155a Bul. Zorana Đinđića V (fifth) floor

14th jul 2010.

Time	Institution	Address
11:00	Serbian Chamber of Commerce	13-15 Resavska Street

16th .jul 2010.

Time	Institution	Address

08:30	Ministry of Education – Bojana Mitrovic	

19th .jul 2010.

Time	Institution	Address
	Public Procurement office	Ustanicka Street

20th .jul 2010.

Time	Institution	Address
09:00	Ministry of Finance, Budget department – Branislava Lukac	20 Kneza Miloša Street
13:00	Ministry of Finance - Department for EU Funds and Development Assistance – Gordana Lazarevic	20 Kneza Miloša Street

22th .jul 2010.

Time	Institution	Address
10:00	Ministry of Finance - Department of Macroeconomic and Fiscal Analyses and Forecasting – Jelena Rancic	20 Kneza Miloša Street

23th .jul 2010.

Time	Institution	Address
	Ministry for National Investment planning – Mirjana Cojbasic	10 Vlajkoviceva Street

Annex 3: Documents Consulted

Constitution Of The Republic of Serbia, 2006
Budget System Law, Official Gazette (OG) No. 9/2002
Budget System Law, Official Gazette (OG), 2007
Revised Memorandum On The Budget And Economic And Fiscal Policy For The Year 2010 With Projections For The Years 2011 And 2012, Ministry of Finance, Belgrade, December 2009 (and previous Memorandum)
Tax Laws (various)

Serbia Public Financial Management Assessment, World Bank, February 16, 2007
Serbia Doing More with Less Addressing the Fiscal Crisis by Increasing Public Sector Productivity, World Bank, June 2009
Program Document For A Proposed Loan In The Amount Of Eur 70.1 Million (Us$ 100 Million Equivalent) To Republic Of Serbia For Programmatic Public Expenditure Development Policy Loan, World Bank, October 20, 2009

Serbia Fiduciary Risk Assessment of the Deposit Insurance Agency and Public Financial Management For DFID, REPIM, January 2010

Republic of Serbia: Report on Observance of Standards and Codes, Fiscal Transparency Module, IMF, May 2009
Serbia: Options for Growth-Enhancing Tax Reform, IMF, March 2010

2008 Governance Overview For Serbia, EC, 2008
Serbia Operational Assessment Draft Report, EC, May 2009
Serbia 2009 Progress Report, EC, Oct 2009

The International Comparative Legal Guide to: Public Procurement, Global Legal Group 2009

Serbia Public Service Assessment, SIGMA, May 2008
Serbia Policy-Making And Co-Ordination Assessment, SIGMA, May 2008
Serbia External Audit Assessment, SIGMA, May 2008
Serbia Public Expenditure Management System Assessment, SIGMA, May 2009
Serbia Public Internal Financial Control (PIFC) Assessment, SIGMA, May 2009
Serbia Public Integrity System Assessment, SIGMA, May 2009
Serbia Administrative Legal Framework Assessment, SIGMA, May 2009

Supreme Audit Institution Summary of Audit Results 2009