

**REPORT ON THE IMPLEMENTATION OF THE PUBLIC
FINANCE MANAGEMENT REFORM PROGRAMME FOR 2020**

Ministry of Finance

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ABBREVIATIONS

AES & AIS	Automated Export and Import Systems
AFCOS	Anti-fraud coordination service of the European Union
BIS	Budget information system
CAAT	Computer-aided audit tools
DG TAXUD	General Directorate for Taxation and Customs Union
DSA	Debt Sustainability Analyses
ERIAN	Electronical Risk Analysis Information System
ESA	European System of Accounts
EC	European Commission
EU	European Union
FAD	Fiscal Affairs Department of the IMF
FMIS	Financial Management Information System
GIZ PFR	Gesellschaft für Internationale Zusammenarbeit - German Corporation for International Cooperation GmbH, Public Finance Management Project
IPSAS	International Public Sector Accounting Standards
ISDACON	Information System for Coordination of the Development Assistance to the Republic of Serbia
ISSAI	The International Standards of Supreme Audit Institutions
MTDS	Medium Term Debt Management Strategy
NCTS	New Computerized Transit System
OECD	Organisation for Economic Cooperation and Development
OLAF	European Anti-Fraud Office
PEFA	Public Expenditure and Financial Accountability
PIFC	Public Internal Financial Control
RESPA	Regional School for Public Administration
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
TADAT	Tax Administration Diagnostic Assessment Tool

TAIEX	Technical Assistance and Information Exchange instrument of the European Commission
UNDP	United Nation Development Programme
USAID	United States Agency for International Development
BRA	Business Registers Agency
GDP	Gross Domestic Product
BI	Budget Inspection
GFSM	Government Finance Statistics Manuals and Guides
DBBs	Direct Budget Beneficiaries
SC	State Companies
SAI	State Audit Institution
BSL	Budget System Law
LoTPTA	Law on Tax Procedure and Tax Administration
BBs	Indirect Budget Beneficiaries
IV	Initial value
IA	Internal audit
CAIS	Custom Administration Information System
LSG	Local Self-Governments
PPO	Public Procurement Office
IMF	International Monetary Fund
MoF	Ministry of Finance
NPAA	National Programme for Adoption Of The Acquis Third Revision
VAT	Value added tax
PFMRP	Public Finance Management Reform Programme
TA	Tax Administration
PAR	Public Administration Reform
WB	World Bank
SBA	Stand-by Arrangement
SEDE	Systemic electronic information exchange
HRMS	Human Resource Management Service
PDA	Public Debt Administration

PFM	Public Financial Management
FMC	Financial Management Control
CHU	Central Harmonisation Unit

INTRODUCTION

This Report on the Implementation of the 2016-2020 Public Finance Management Reform Programme (hereinafter referred to as: The Report on the Implementation of the Programme) for 2020 has been prepared by the Ministry of Finance of the Republic of Serbia, with the active participation of the ministries and inspections being members of the Working group on preparation, monitoring and reporting on implementation of the Public Finance Management Reform Programme (hereinafter referred to as: Programme Working Group) and Programme Technical Secretariat. In the course of 2019, the Programme was subject to changes and on that occasion activities, indicators and reform activities cost assessments were improved. Revised Programme was adopted in September 2019 for the period July 2019 - December 2020.

Revised Programme was prepared in close cooperation with SIGMA experts, as well as with regular consultations with the European Commission. However, it was developed in quite specific circumstances caused by the global COVID-19 pandemic and reflects reform measures the Ministry of Finance and its partner institutions tended to attain by the end of 2020. This Report constitutes the final report on the implementation of the 2016-2020 PFM RP.

Fitch rating services confirmed that country's credit rating was at the level of BB+, with stable prospect for further increase.



“We hereby confirm that all economic measures undertaken by Serbia ever since the outbreak of the COVID-19 pandemic have been successfully implemented, as well as preceding fiscal consolidation measures. Major shocks caused by corona-related crises have been evaded, we managed to keep all jobs, and State continues to minimise consequences via new economic measures.

Last year we had two aid packages of the value of 704 billion dinars, almost 6 billion euros. This third package is of the value of 266.1 billion dinars, with total to 8 billion dinars, being 17.4 percentage higher than our GDP. That is a significant assistance invested in both economy and citizens with the aim of mitigating adverse effects of the pandemic.”

Siniša Mali, the Minister of Finance

Minister of Finance within the Government of the Republic of Serbia, Siniša Mali, presented the first Programme of Economic Measures to Support the Serbian Economy and Mitigate the Negative Effects Caused by the COVID-19 Pandemic on 31 March 2020. “Despite

the fact that the COVID-19 invoked crises our economy faces is of a global character, Serbia has pursued wise fiscal policy in past several years, and now it is ready to assume the biggest part of the burden. We are prepared more than ever, economically strong, with stable public finances”, as Minister stressed.

The total value of the aid programme for 2020 amounted to 704.4 billion dinars (12.7 percent of the GDP), and it covered both direct and indirect aid for companies and entrepreneurs, fiscal subsidies for households, tax relieves and postponements of liabilities. Such economic response to crisis had a direct impact on halting the drop of economic activities at no more than 1 percent, and it is estimated that without this repose the drop of GDP would have amounted to 5 percent.

SUMMARY OVERVIEW

The Government of the Republic of Serbia adopted the Public Finance Management Reform Programme for the period 2016-2020 (PFMRP) at the end of 2015. The goal was to attain more balanced and sustainable budget, reduce public debt, enhance financial management and control and improve auditing process. PFMRP tends to contribute towards better interlinkage of the budget with different policies of the Government, as well as towards greater transparency in all of those processes. The revised PFMRP for the period July 2019 to December 2020 was adopted in the course of the Government session held on 26 September 2019. It contained updated activities, new indicators and sources of verification, as well as a detailed execution cost assessment.

Public finance management is critical for the EU integration process and is connected with a large number of negotiation chapters: Chapter 5 – Public procurements, 16 – Taxation, 17 – Economic and monetary policy, 22 – Regional policy and coordination of structural instruments, 29 – Customs union, 32 – Financial control, 33 – Financial and budgetary provisions. The talks about public finance reform are held with the European Commission within the Specialised Group for Public Administration Reform in the process of monitoring the realisation of the Stabilization and Association Agreement.

Stable public finances are relevant not only from the standpoint of attaining sustainable growth, but they rather represent an indispensable condition for an adequate state response in the state of emergency. The requested and targeted measures of fiscal consolidation in the previous period have contributed towards public finance stabilisation and have enabled the adoption of a comprehensive and important package of economic assistance intended for the economy and citizens in the times of crises caused by the COVID-19 pandemic.

In 2020, progress was made in all areas of the Public Finance Management Reform Programme: a) public funds planning and budgeting; b) efficient and effective budget execution; c) effective financial control; d) public sector accounting and e) external oversight over public finances.

Enhancing the process of programme budgeting and mid-term planning were also pursued in 2020, and as a result the compliance of budget beneficiaries with the Instructions for Programme Budgeting amounted to 92 percent at the central level, and 81 percent at the local level. The planning and monitoring of capital projects was enhanced through better ranking of capital investments against priority goals, by application of rules and forms in line with the Decree on Capital Projects.

The Tax Administration reform plays the key role in the process of increasing budget revenues and enhancing public finance management. Moreover, its transformation process was pursued in accordance with the Action Plan for Transformation for the period 2018-2020. Digitisation process of e-filing of tax returns via e-Porezi portal, as well as getting e-certificate about settled tax dues, was accompanied by the planned introduction of e-fiscalisation through centralised digital platform and transfer to e-invoicing. The exchange of data among the Pension and Disability Insurance Funds, Republic Fund of Health Insurance and CROSO is fully automated in the flat-rate taxation system.

Active management of public debt was pursued in the course of 2020 in accordance with the international ISDA standards with the use of financial derivatives for the purpose of hedging against foreign exchange and interest rate risk. In addition to the Eurobond in May, a ten-year bond worth 1.2 billion US dollars was issued in November, thus making an early repayment of 900 million dollars of Eurobonds issued and sold in 2011. Dinarisation of public debt increased from 20.9 percent by the end of 2016 to 30.5 percent in 2020.

Public Procurement area is improved by the implementation of the Public Procurement Law through the development of a new Portal, development of Guidelines for green public procurement and enhancing operational capacities of the Public Procurement Office.

Enhancing financial management and control, as well as further development of internal audit function is attained through a series of activities, including improvement of functions observing quality in those areas, publishing Guidelines for Irregularity Management and other improvements resulting from the application of Rulebook on common criteria and standards for the establishment, operation and reporting of the financial management and control system, as well as improvement of Consolidated Annual Report on the PIFC.

Significant improvements were enabled by constant investments in IT systems and digitisation in the area of public finance. In 2020, in addition to the common written reporting, electronic reporting was tested for the first time, thanks to the improved Budget Execution Information System (ISIB) and the System for Electronic Completion and Collection of Annual Reports on the State of Financial Management and Control. *AuditDoc* software for audit and document management in the area of public debt management, and Common Information System for Planning and Implementation of Public Policies (JIS) of the Republic Secretariat for Public Policies have also contributed towards the efficiency of the process.

Introduction of the Unified Information System for Budget Execution Planning and Financial Reporting (SPIRI) was planned in the area of reform of accounting and financial reporting. The system will fully replace the current ISIB system by 2022.

In the course of 2020, the Treasury Administration implemented an information system for budget execution of autonomous provinces and local self-government units (ISIB AP JLS), the use of which began on 1 January 2021. The system provides access to decisions on the budget of autonomous provinces and local self-government units, insight into available funds according to determined appropriations, as well as control of execution up to the amount of available appropriations. In that way, monitoring, control and reporting on the executed expenditures and expenses and generated revenues and wages per all elements of the budget classification in accordance with the instructions for drafting the programme budgeting for local self-government units were improved.

The Rulebook on the Autonomous Province and Local Self-Government Budget Execution System (“Official Gazette of the RS”, number 154/2020) was adopted. It regulates processes and

procedures of autonomous province and local self-government budget execution system functioning, as parts of the public finance management system implemented through the autonomous province and local self-government budget execution system of the Ministry of Finance - Treasury Administration. The system records generated revenues and wages, and executes expenditures and expenses of autonomous provinces and local self-government units set under the decision on budget, i.e. enactment on temporary financing.

In the course of 2020, the Treasury Administration implemented the Information System for Financial Statement Filing (ISPF), which enables all DBBs e-submission of their financial statements, with the aim to improve the processes of collection, control and consolidation of data at all governmental levels.

Moreover, a Rulebook on the Amendments to Rulebook on the Manner of Preparation, Compilation and Submission of Financial Statements of Direct Budget Beneficiaries, Beneficiaries of Funds of Organizations for Mandatory Social Insurance and Budget Funds (“Official Gazette of the RS”, number 151/20) was adopted, regulating electronic submission of financial statement to the Treasury Administration.

In the course of 2020, activities indented for strengthening external oversight over public finance and conducting high quality audits with positive impact on public sector functioning, continued. With the aim of digitising audit sector operations and improving efficiency and quality of audits, the roll out of the audit management software (AMS) is planned.

One of major challenges in the implementation of the planned reform activities in the course of 2020, apart from adverse economic effects caused by COVID-19 pandemic, was limitation of administrative capacities involved in the implementation of the Programme. This is partially compensated through training sessions organised for staff members involved in the PFMRP implementation process, specifically in the area of development of analytical capacities, mutual cooperation, improvement of planning and use of IT systems rolled out in the previous period.

Preparation and implementation of the PFMRP are funded from the budget, with rather significant support by the European Commission through the Sector Budget Support for the Public Administration Reform from IPA 2015, IPA projects, TIEX and SIGMA. One of important partners is the Federal Republic of Germany through the project “Public Finance Reform – 2030 Agenda” implemented by GIZ. World Bank, IMF, OECD and UNDP are providing their active support, as well as the Governments of Sweden, Swiss, Great Britain, USA and Slovakia.

The process of preparation of a new Public Finance Reform Programme for the period 2021-2025 was initiated at the end of 2019, as a part of preparation of a new umbrella Public Administration Strategy for the period 2021-2030. In the course of 2020, members of the PFMRP Working Group were preparing the Draft Programme which is harmonised with the PAR Strategy and the Law on Planning System of the Republic of Serbia. It also contains assessment of funds necessary for its implementation. Public debate was organised in the period from 25 March to 15 April 2021, and the Programme is being expected to be adopted in the course of May.

OVERALL OVERVIEW

The Government of the Republic of Serbia remains committed to a model of economic growth based on investments and exports, supported by the growth of private consumption on real and sound sources. Main goals of the fiscal policy refer to gradual stabilisation of public finances and public investment growth, intensification of reform processes and creation of new sources of growth through innovations, research and development, renewable sources of energy, creative industries and eco-investments

Economic activity in 2020 recorded a decrease of 1.0 percent, which is one of the best results in Europe. In 2020, GDP declined by 1 percent due to reduced economic activity over the final three quarters of the year due to restrictive epidemiological measures and worldwide recession and it represents one of the best results in Europe. The service sector had the most significant negative impact on the GDP growth rate due to COVID-19 pandemic negative effects, primarily on tourism and transport, but also on entertainment and recreation services, as well as professional and technical services. The construction industry recorded a decrease in activity of 5.1 percent as a consequence of the base effect, i.e. the extremely high value of the executed works in 2019. Net taxes due to lower household consumption also had a negative contribution. Thanks to a strong recovery in the second half of the year, the industry managed to avoid recessionary trends, while the most significant positive contribution was made by agriculture with a growth of 4.2 percent.

The current account deficit amounted to 4.3 percent of GDP, and its share in GDP was 2.6 percentage points, which is less than in 2019 (6.9 percent). On the other hand, macroeconomic stability and an improved business environment have led to high net FDI inflows of € 2.9 billion in 2020 (6.2 percent of GDP).

The share of central government public debt in GDP grew by only 4.8 percentage points in 2020, staying below the level prescribed by the Maastricht criteria. The general government public debt amounted to 58.2 percent of GDP at the end of 2020.

The IMF mission was held in November 2020, and then it noted the progress and attainment of the planned goals in the area of Tax Administration reform, enhancing public finance management, resolution of the state companies issues and privatisation of the biggest state bank. A new arrangement with the IMF - Policy Coordination Instrument is expected in mid-2021 and will be focused towards further implementation of structural reforms, with an emphasis on the public sector wage reform, public companies reform, fiscal rules and capital market reform.

Economic support packages to the economy and population during the COVID-19 pandemic significantly contributed to mitigating the consequences of the crisis and to a smaller decline in the economy. Moreover, turbulence in the labour market was avoided. The unemployment rate at the end of 2020 amounted to 9 percent, which is lower than before the outbreak of the coronavirus pandemic. Inflation remained low and stable throughout 2020 averaging 1.6 percent.

The rating agency *Standard and Poor's*, in its report published on 14 December 2020, confirmed the credit rating of the Republic of Serbia at the level of BB + and kept stable prospects for its further increase. *The rating agency Moody's* upgraded the credit rating of the Republic of Serbia from “Ba3” to “Ba2”, with a stable prospects for further improvement. The main factors that contributed to the improvement of the credit rating are the resilience of the Serbian economy against the consequences caused by the coronavirus pandemic, stable level of medium-term

growth, as well as expectations that indicators of fiscal sustainability in Serbia will continue to be above the average of the group of countries with the “Ba” credit rating.

Good public finances, fiscal balance, price and financial stability in the previous period, as well as a relatively favourable level of debt have enabled the creation of a comprehensive economic package of support to the economy and the population. At the beginning of April 2020, the Government of the Republic of Serbia adopted the Program of Economic Measures for Reducing the Negative Effects Caused by the Covid - 19 Pandemic and Supporting the Serbian Economy. The primary goal was to preserve liquidity and mitigate the decline in employment, preserve living standards and liquidity of the population.

The total value of the aid programme for 2020 amounted to 704.4 billion dinars (12.7 percent of the GDP), and the programme covered both direct and indirect aid for companies and entrepreneurs, fiscal subsidies for households, tax relieves and postponements of liabilities. Such economic response to crisis had a direct impact on halting the drop of economic activities at no more than 1 percent, and it is estimated that without that response the drop of GDP would have amounted to 5 percent.

In the first quarter of 2021, the Government of Serbia adopted a decree for the third economic package of measures to support the economy and citizens worth 266.1 billion dinars. Together with the first two packages adopted in the previous year, the financial support to the economy and citizens amounts to 970.5 billion dinars, or about eight billion euros. The third package of measures refers to the payment of half of the minimum wage during three months for entrepreneurs, micro, small, medium and large companies, and for 1.8 million workers. Assistance is also provided to the catering sector in the amount of two billion dinars, to bus carriers in the amount of 2.6 billion dinars and directly to citizens in the amount of 60 euros, and to pensioners with additional 50 euros.

For 2021, real GDP growth is projected at 6.0 percent. Growth will be most affected by domestic demand, while investments will be the second most important component with an expected year-on-year growth of 13.3 percent. According to projections, exports will grow at an annual rate of 9.3 percent, which is faster than the expected annual growth of imports, which will average 8.3 percent. This dynamics of foreign trade flows will improve the current account balance in the medium term and provide a slight reduction in the balance of payments deficit from 6.9 percent in 2019 to 4.6 percent in 2023.

According to the medium-term macroeconomic projection, the cumulative growth rate in the period 2021–2023 will amount to 14.6 percent and will be determined by the growth of domestic demand, constant increase in investment, but also the growth of household consumption due to the growth of living standards. On average, the Serbian economy will grow at a rate of 4.7 percent annually. The increase in private consumption is projected at a lower rate than the acceleration of economic activity and will average 3.7 percent. The goal is for Serbia's foreign debt to amount to about 50 percent of GDP at the end of 2025. One of the main factors that will contribute to this reduction is the increase in the openness of the Serbian economy to over 120 percent of GDP.

On 28 January 2021, the Government of the Republic of Serbia adopted the Economic Reform Programme for the period 2021-2023 (ERP) as the most important strategic document in the economic dialogue with the European Commission and the Member States of the European Union. The process of drafting the document represents inclusion in the European Semester of

economic policy coordination in the EU, which is the subject of discussions with the European Commission within the negotiation chapter 17 - Economic and Monetary Policy. The 2021-2023 ERP was submitted to the European Commission on 29 January 2021.

Most of the total of 24 structural reforms presented in the ERP are aimed at improving the business environment, combating the informal economy, research, development and innovation as well as digital transformation. The ERP thematically links structural reforms to the UN 2030 Agenda sustainable development goals, and provides a direct link to the priority areas of the Common Regional Market Action Plan adopted at the Western Balkans Summit in Sofia.

As part of the implementation of public finance management reform, the analytical capacity of the Ministry of Finance, and other relevant institutions involved in the reform, has been significantly strengthened. The introduction of new organizational solutions, new models and analytical instruments, software, training, improved data exchange and increased transparency of data, has led to increased public insight into the flow of public finances and the adoption of EU standards in this area.

Limited opportunities for new employments and personnel turnover are the identified challenges in the area of strengthening administrative capacity. The next challenge is the investments in improving and connecting IT capacities, sustainability as well as involvement in the digitisation process, which is a prerequisite for any modern public administration and a basis for efficient management of the public finance system.

Progress made under Pillar I - Public Funds Planning and Budgeting

Since 2015, when the programme budget was introduced for all public funds beneficiaries, we have been continuously working on improving the planning and budgeting process. The structure of the budget of public funds beneficiaries is increasingly harmonized with the Programme Budgeting Instructions, and significant progress has been made in the part related to monitoring and reporting on the performance from the previous year. In 2020, the compliance of budget beneficiaries with the Programme Budgeting Instructions amounted to 92 percent. The upward trend is also noticeable in terms of consistency in the application of basic methodological requirements of programme budgeting by local governments (45.56 percent in 2015, to 81 percent in 2020). In addition to this, the Programme Budgeting Instructions for Local Self-Governments has been improved in the part related to the coding of projects. Moreover, a possibility to include new programme activities has also been introduced.

In 2020, a module for monitoring and reporting on the performance of the programme was developed. This module enables easier submission, collection, analysis and processing of programme performance reports submitted by budget beneficiaries twice a year. All budget beneficiaries submit their performance reports to the Ministry of Finance, with the target value of 85 percent for 2020 exceeded.

In 2020, the integration of indirect budget beneficiaries into the budget execution system (ISIB) continued, with 12 more beneficiaries included in the system, while in September 2020 a contract was concluded for the procurement of a new, Unified Budget Accounting System (SPIRI), which will completely replace ISIB by 2022.

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autonomous provinces and local self-government units, insight into available funds according to determined appropriations, as well as control of execution up to the amount of available appropriations. In that way, monitoring, control and reporting on the executed expenditures and expenses and generated revenues and wages per all elements of the budget classification in accordance with the instructions for drafting the programme budgeting for local self-government units has been improved.

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The Law on Planning System of the Republic of Serbia, which was adopted in 2018, was further improved by adopting the Decree on Policy Management Methodology, Policy and Regulatory Impact Assessment, and Content of Individual Policy Documents and the Decree on the Methodology for Mid-Term Plans Development (“Official Gazette of the RS”, no. 8/19), as well as the Decree on Mandatory Elements of the Development Plans of the Autonomous Province and Local Self-Governments (“Official Gazette of RS”, no. 107/20).

Also, the provisions for medium-term plans development are further explained and specified in the Manual on Medium-Term Planning, which was developed within the project "Support to Public Administration Reforms under the Sectoral Reform Agreement" from IPA 2015 and published on the website of the Republic Secretariat for Public Policies in March 2020. During 2020, activities were also aimed at improving the existing functionalities of JIS based on the user experience of state administration bodies. One system service administrator and a customer service administrator were appointed and trained. A special email has been created for communication with users and support in using the system.

After certain ministries successfully piloted preparation of their medium-term plans for the period 2020-2022 (first of all the Ministry of Health, Ministry of Public Administration and Local Government and the Republic Secretariat for Public Policies), the medium-term plans of the Republic Secretariat for Public Policies, Ministry of Public Administration and Local Government and the Ministry of Defence were adopted and published on their official websites in January 2020.

In 2019, the Decree on Capital Project Management (“Official Gazette of RS”, no. 51/2019) was adopted. Its implementation began in January 2020. In addition, the accompanying regulations

governing this area were adopted. Pursuant to the Decree, the Ministry of Finance keeps unified record of capital projects whose total value exceeds EUR 5,000,000. In February 2020, the Capital Investment Commission of the RS was formed in accordance with the Decree. The Commission met 3 (three) times by 4 February 2021. In June 2020 the membership in the Commission was revised on the basis of the Decision on dismissal and appointment of the Deputy President and members of the Capital Investment Commission of the RS ("Official Gazette of RS" no. 144/2020). The Capital Investment Commission of the RS confirms the strategic relevance of capital projects and adopts a list of capital projects that have been successfully evaluated and passed the pre-implementation phase; ensures compliance among different sources of funding in the project preparation and implementation phases; adopts the final list of priority and ready capital projects; introduces its development partners plans for the implementation of projects from the list of priority project ideas and list of priority prepared projects, and considers proposals of development partners related to these projects; enters capital projects of special importance for the Republic of Serbia into the list, etc., and the Ministry of Finance carries out all administrative and technical tasks for the Commission.

Progress made under the Pillar II - Efficient and Effective Budget Execution

The Tax Administration continued the implementation of the Tax Administration Transformation Programme and the accompanying Action Plan for the period 2018-2023.

The Act on Internal Organization and Job Classification in the Ministry of Finance-Tax Administration of 7 June 2019, implying a business network in which basic and separate activities will be performed separately, was adopted by the Government of the Republic of Serbia. Therefore, the condition was created to deploy staff members in accordance with the new organization network from 1 July 2019.

The business network of basic activities consists of 37 branches at 37 locations, as well as the Centre for Large Taxpayers (CVPO) as a separate organizational unit. Thus, in the first phase of the reorganization, the concentration of control and collection functions for basic activities was performed at 37 locations, and it is planned to have these functions located at 8 to 12 places by 2023.

Starting from 1 March 2019, an application was launched that enables taxpayers to receive, electronically: tax clearance certificates for all public revenue accounts, clearance certificates for health insurance contributions, value added tax (VAT) clearance certificates, and withholding tax clearance certificates (for consolidated tax collection).

In 2020, in the specific situation caused due to the outbreak of the COVID-19 pandemic, the Customs Administration successfully realized the collection of public revenues provided by the Law on Amendments to the Budget System Law of the Republic of Serbia for 2020 ("Official Gazette of RS", no. 135/2020) specifically: planned collection based on customs duties by 2.29 percent, and based on value added tax from imports by 1.15 percent. The Customs Administration continued to strengthen its administrative and operational capacities, as well as to carry out activities of importance in areas of establishing a system of EU traditional own resources, modernizing the Customs Laboratory and improving anti-corruption measures.

Despite the consequences caused by the COVID-19 pandemic, the trend of a sustainable public debt rate in GDP continued in 2020, and according to preliminary data, the share of general government public debt in GDP at the end of December 2020 was 58.2 percent. Thanks to

intensified control over the issuance of state guarantees, guaranteed public debt fell from 2.8 billion euros at the end of 2013, to 1.4 billion at the end of 2020.

The weighted average interest rate on public debt fell from 5.70 percent at the end of 2014 to 2.91 percent at the end of 2020. Moreover, the average coupon rate on dinar government securities was reduced from 11.96 percent at the end of 2012, to 4.74 percent at the end of 2020. In addition, there was a significant increase in the share of public debt in domestic currency, which at the end of 2020 amounted to 30.5 percent. It was supported by issues of government securities on the domestic securities market.

In December 2020, a cross-currency swap transaction was realized, by which liabilities based on the issued Eurobond in US dollars were converted into euros at a significantly lower final purchase rate.

In November 2019, at the proposal of the Public Procurement Administration, the Government of the RS adopted the Programme for the Development of Public Procurement for the period 2019-2023. The Programme defines the public policy in the field of public procurement for a five-year period. This Programme consists of four specific goals and one general "Further development of a modern and efficient public procurement system". Guidelines for improving green public procurement have been developed and published on the **Public Procurement Office** website.

Further harmonization with the directives of the European Union was made by the adoption of the Public Procurement Law ("Official Gazette of RS", No. 91/19) on 24 December 2019. The new Public Procurement Law entered into force on 1 January 2020, and its implementation commenced on 1 July 2020. Also, a new Public Procurement Portal has been established. The Portal is in line with the new legislative framework.

Progress made under the Pillar III - Effective Financial Control

By implementing more than 95 percent of the recommendations given by the European Commission within the Report on Serbia in the context of the negotiation chapter 32 for 2019, the Report for 2020 assessed the progress in the field of internal financial control in the public sector as good.

In the middle of 2020, a Twinning project was successfully completed. The Project bequeathed solid base of instruments and transferred experience from EU member states, which will contribute to further promotion of modern governance, based on results and transparency. Based on the results of the Pilot exercise of the Twinning Project, key institutions recognised a managerial responsibility as a matter of special interest. Throughout 2020, work was focused on designing measures and activities that would lead to its full introduction into the administrative culture of the Republic of Serbia as a special goal within the PAR Strategy: Accountability and transparency.

The most important results during 2020 concern the development of methodological tools intended for the improvement of the PIFC at PFBs. As many as fourteen different educational materials (guidelines/models, videos) from various areas of internal financial control were prepared, most of which are available for self-study on the MoF/CHU website. The Manual for Financial Management and Control and the Manual for Internal Audit were additionally updated, as well as all training materials from FMC and IA.

The Government adopted the Consolidated Annual Report on the State of Internal Financial Control in the Public Sector (hereinafter: Consolidated Annual Report) for 2019 on 19 November 2019. The delay was caused by a pandemic that affected the availability of documentation during the reporting process. During 2020, reporting was done electronically using the application for the first time, and half of the institutions that submitted reports used this opportunity. With the introduction of electronic reporting, the data processing process will be more efficient and accurate. The report was further improved by harmonizing the FMC questionnaire with the new COSO framework 2013 as prescribed by the FMC Rulebook and a deeper analysis of the work of internal audit, which resulted in specific recommendations for its improvement.

By the end of 2020, 478 internal auditors were certified in the public sector.

With the Rulebook on Professional Development of Certified Internal Auditors in the Public Sector, which entered into force on 16 March 2019, and which defines the areas and forms, criteria for recognition, reporting and records on professional development, 2020 is the first year in which the internal auditors started regular reporting to the CHU on professional development in the previous year.

In December 2019, amendments to the Rulebook on Common Criteria and Standards for the Establishment, Functioning and Reporting of the FMC System with PFBs (hereinafter FMC Rulebook) were adopted. In that regards, the Rulebook stipulated the 2020 to be the first year in which PFBs would start to apply the Guidelines on Irregularity Management, as well as the first year for which they would start submitting Declarations on Internal Controls.

On 5 September 2019, the Minister of Finance adopted the Directive on Operations and Conduct of the Anti-Fraud Coordination Service Unit in Managing European Union Funds in Connection with Reported and Otherwise Recorded Irregularities and Suspected Fraud Involving the use of EU Funds in the Republic of Serbia (hereinafter referred to: "Directive"), which strengthened the Service. It undertook administrative checks of reported irregularities in the use of European Union funds. A risk analysis of all bodies involved in the management of EU funds was performed in order to define the areas of risk of irregularities and fraud and the Methodological Instructions on Managing Risk in Connection with Irregularities and Fraud Involving EU Funds (hereinafter: "Methodological Instructions") was developed along with accompanying annexes.

In November 2019, the Rulebook on Oversight by the Budget Inspection of Compliance with the Law on Late Payments in Commercial Transactions ("Official Gazette of RS", No. 78/2019) was adopted. This Rulebook prescribes the manner and procedure to oversee the implementation of the said law in cases when transactions are performed between the public sector and economic entities in which public sector entities are debtors, as well as among public sector entities, as well as the manner and procedure of retrieving data on outstanding liabilities of public companies from the information system of the Treasury Administration.

In December 2019, the Budget Inspection Operating Methodology was adopted in order for the actions and work of the budget inspections of the Ministry of Finance to be proper and uniform, specifically of the Service for Budget Inspection of the Autonomous Province and the Service for Budget Inspection of local self-government units.

Progress made under the Pillar IV - Public Sector Accounting

As of 1 January 2019, indirect beneficiaries of the Ministry of Labour, Employment, Veterans and Social Affairs - Social Welfare Institutions were included in the budget execution system, bringing the number to the total of 529. After the preparations made during 2020, starting from 1 January 2021, another 12 indirect budget funds beneficiaries were included in the budget execution system (ISIB), whereby the number reached 541. Establishment of accrual-based accounting is planned as a long-term goal by 2030.

A draft comparative analysis was made with countries applying International Accounting Standards in their public sector and a process of continuous training commenced in order to develop accounting capacities in the public sector. The Law on the Final Account of the RS Budget for 2019 was adopted by the National Parliament on 11 December 2020.

Progress made under the Pillar V - External Oversight over Public Finances

In the course of 2020, activities indented for strengthening external oversight over public finance, and conduct of high quality audits with positive impact on public sector functioning. A total of 254 audit reports were published, of which 137 reports on the audit of financial statements and 74 reports on the compliance audit, as well as the audit of the Consolidated Statement of the Republic of Serbia for the year of 2019.

The goals from the Strategic Plan for 2020 have been fully met. The total of 10 objectives against the planned 7 objectives within the Goal 1, i.e. 5 objectives within the Goal 2 were implemented, as planned by the Action Plan for the period 2019-2023.

Transparency of audit products produced during the year is achieved through up-to-date publication of regular audit reports, response reports and post-audit reports on the SAI website. In addition to the above, in order to present the recommendations to the public in a simpler and more understandable way, summaries of each individual audit report are published (highlight pages). The register of recommendations for 2019 with a total of 1,970 recommendations has been available to the public from October 2020. The percentage of the compliance with 971 "first priority" recommendations that must be implemented within 90 days is 87.53 percent. It is estimated that the compliance with all recommendations is 75 percent.

Further improvement of the scope and quality of external audits was achieved through the application of manuals and guidelines in line with ISSAI standards. In accordance with the Manual for Quality Assurance and Quality Control in 2020, 20 audit reports were subject to appropriate reviews in 2020.

Methodological Rules and Guidelines for IT Audit have been adopted, in accordance with ISSAI standards and best international auditing practices. Further development of the Methodology for Following-up and Evaluating Recommendations Effects is still underway.

Capacity development of SAI auditors is realized through internal and international trainings, their participation in various INTOSAI and EUROSAI working groups, as well as through the conduct of joint international audits.

In order to digitise the work of auditing services and improve the efficiency and quality of audit in 2020, the contract was signed with the supplier for the development of audit management software (Audit Management System - AMS), while a complete software solution and training of staff members are expected in 2021.

The European Commission's Progress Report for 2020 recognized the increased coverage and quality of the audit of public funds, as well as the further improvement in the auditees' compliance with the recommendations.

PROGRESS MADE PER PILLARS

PILLAR I - PUBLIC FUNDS PLANNING AND BUDGETING

Objective level indicator	Baseline value	2019	2020
Percent of the performance reports prepared in line with the Methodology, sent to the Ministry of Finance	60%	72%	85%

MEASURE - IMPROVING COVERAGE OF THE RS BUDGET

Key results by the end of 2019

- Improved coverage of the national budget provides a better basis and more reliable information on budget execution, on the basis of which the Budget Department of the Ministry of Finance plans expenditures of indirect beneficiaries of budget funds in a more precise fashion.
- As of 1 January 2018, additional 73 indirect beneficiaries of budget funds (institutions for the execution of criminal sanctions, the Solidarity Fund, the Socio-Economic Council and cultural institutions) are included in the Information System of Budget Execution-ISIB of the Treasury Administration. Since 2016, ISIB has included a total of 320 indirect budget funds beneficiaries.
- Significant progress has been made by including project loans in the 2017 Budget System Law, as well as by preparing financial plans for public companies at the same time as the RS budget.
- As of 1 January 2019, another 209 indirect budget funds beneficiaries (Social Welfare Institutions) have been integrated into ISIB.

Attained in 2020

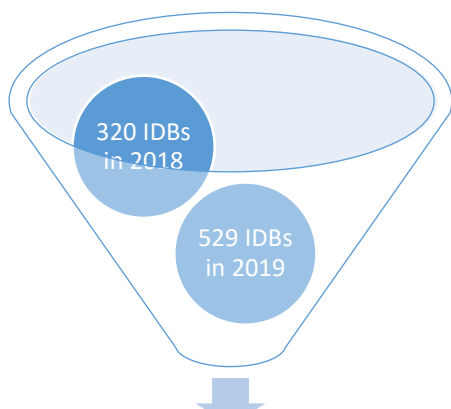


Illustration 1: Number of indirect budget funds beneficiaries included into the budget execution system (the total number)

After the preparations that were made during 2020, starting from 1 January 2021, another 12 indirect budget funds beneficiaries were included in the budget execution system (ISIB). These are:

- 2 (two) indirect budget funds beneficiaries under the Ministry of Economy;
- 1 (one) indirect budget funds beneficiaries within the Ministry of Interior;
- 22 (two) indirect budget beneficiaries under the Ministry of Youth and Sports and
- 7 (seven) indirect budget beneficiaries under the Ministry of Education, Science and Technological Development.

The inclusion of 12 indirect budget funds beneficiaries was not part of the Action Plan of the Public Finance Management Reform Programme, but represents a continuous upgrade of the results of the implemented measure from the previous period.

- In the course of 2020, the Treasury Administration implemented an information system for budget execution of autonomous provinces and local self-government units (ISIB AP JLS), the implementation of which began on 1 January 2021.
- In the course of 2020, the Treasury Administration implemented the Information System for Financial Statement Filing (ISPFI), which enables e-submission of DBBs' financial statements with the aim to improve the processes of collection, control and consolidation of data at all governmental levels.

Funding of the measure

The activities are financed from the budget of the Republic of Serbia and with the support of the IMF and the World Bank.

Key challenges

- Improving the revenues and expenditures planning process of indirect budget funds beneficiaries based on information on the execution of their revenues and expenditures;
- Administrative and technical capacities of indirect budget funds beneficiaries that are connected to the budget execution system;
- In order to overcome these challenges, the Treasury provides ongoing support to beneficiaries.

Planned for the coming period

After the successful implementation of the measure, a continuous upgrade of the results achieved in the previous period is forthcoming. In this regard, on 30 September 2020, a contract was concluded for the procurement of a new system - the Unified System of Budget Accounting (SPIRI), which consists of the following components:

1. Budget preparation;

2. Budget execution;
3. Budget accounting and reporting;

The deadline for delivery of the complete system is 22 December 2022. With the realization of the contract, SPIRI will replace the existing ISIB solution.

MEASURE - FURTHER PREPARATION OF THE MULTIYEAR PROGRAMME BUDGETING AT ALL LEVELS

Key results by the end of 2019

- The Budget Information System for Budgeting (BIS) was developed in 2016 and successfully tested during 2017;
- In 2017, performance-based reporting began;
- The Programme Budgeting Instructions were improved;
- The programme structure was improved;
- The Citizens' Budget of the Republic of Serbia was prepared and published on the website of the Ministry of Finance for 2015¹, 2017², and 2018³ and 2020: “The practice of publishing Citizens’ Budgets was pursued in parallel at the local level, where in relation to merely 9 percent of local governments making these documents available in 2018, the number has nearly quadrupled by 2020 and amounts to 37 percent of all local governments⁴.”
- Budget transparency was expanded by introducing a legal obligation to publish programme information and report on the attained results on the budget beneficiaries’ websites.
- During 2018, training sessions were held for budget beneficiaries in the field of programme budgeting and programme performance reporting in cooperation with the Human Resources Management Service (HRMS) and the National Academy for Public Administration (NAPA);
- The capacities of civil servants and employees in local self-governments for programme budgeting and programme performance reporting were improved; Instructive training sessions dedicated to the local government staff members were organised within the EU Programme Exchange 5 in cooperation with the Ministry of Finance and SCTM, in total 12 regional one-day seminars annually. So, in the course of 2017, 2018 and 2019 the total of 750 representatives from around 80 percent of all local governments took part in those seminars

Performance indicator

The percent of Performance Reports prepared in accordance with the methodology that are sent to the Ministry of Finance in 2020 amounted to 100% and thus exceeded the set value of 85%.

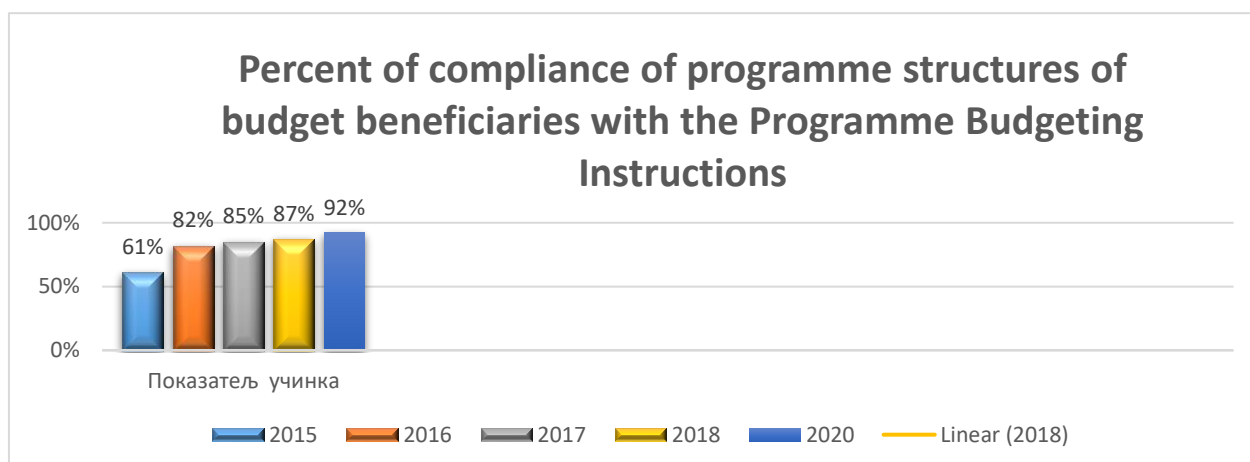
¹ https://civilnodrustvo.gov.rs/upload/documents/Publikacije/2015/Gradjanski_vodic_kroz_budzet.pdf

² [https://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Gradjanski%20vodic%20kroz%20budzet\(1\).pdf](https://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Gradjanski%20vodic%20kroz%20budzet(1).pdf)

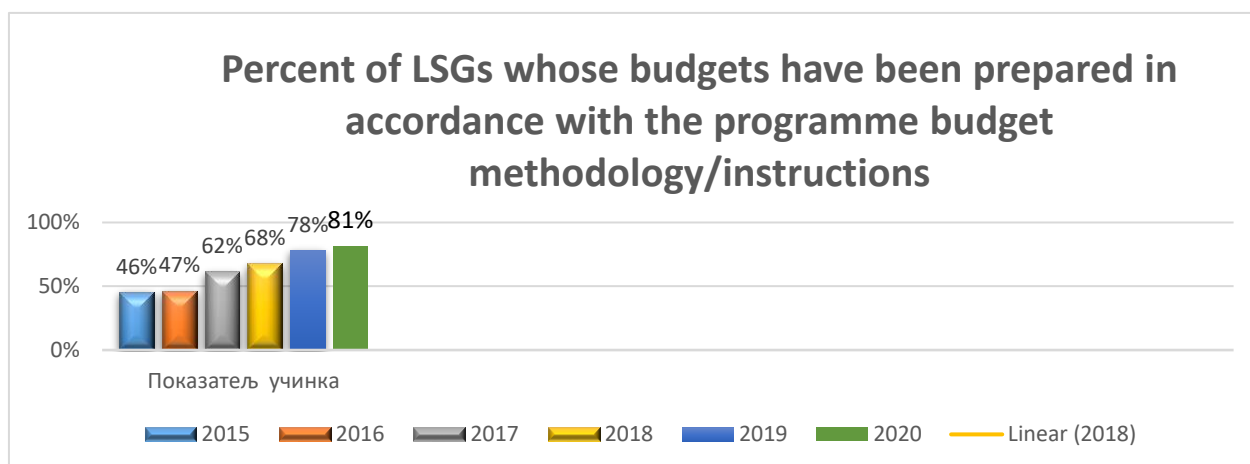
³ http://ifkj.mfin.gov.rs/user_data/posts/Gradjanski%20vodic%20kroz%20budzet%20Republike%20Srbije%20za%202018.%20godinu.pdf

⁴ In 2018 as part of the Exchange Programme 5 (EU, IPA 2014) in cooperation with the Ministry of Finance and SCTM a model Citizens’ Guide through Budget intended for towns and municipalities was developed and promoted. Its aim was to stimulate LGs to produce and publish these Guides.

- With the adoption of the Planning System Law of the Republic of Serbia on 20 April 2018, ("Official Gazette", no. 30/18) and bylaws during 2019, results-based management was introduced.
- The harmonization of the existing strategic framework with the provisions of the Budget System Law of the Republic of Serbia to the level required for the preparation of the medium-term plan was successfully completed in 2019.
- The preparation of the medium-term plan for the Ministry of Health began on 20 September 2019 and the plan was adopted on 30 January 2020 by the decision of the Minister of Health.
- Piloting for the preparation of the Medium-Term Plan of the Republic Public Policy Secretariat (PPS) began in September 2019, and the medium term plan was adopted on 31 January 2020 with the signature of the manager of the Medium-Term Plan. The plan was then published on the PPS website.
- Activities on the preparation of the medium-term plan of the Ministry of Public Administration and Local Government began during the fourth quarter of 2019. The medium-term plan of the Ministry of Public Administration and Local Government was adopted with the consent of the Minister on 31 January 2020 and published on the website of the Ministry of Public Administration and Local Government.



Graph 1: Percent of compliance of programme structures of budget beneficiaries with the Programme Budgeting Instructions



Graph 2: Percent of LSGs whose budgets have been prepared in accordance with the programme budget methodology/instructions

Attained in 2020

A module for programme performance reporting was prepared within the budget preparation system. Budget beneficiaries submit twice a year their programme performance reports (annual and semi-annual report). The module facilitates the submission, collection, analysis and processing of programme performance reports. The Programme Budgeting Instructions were improved in the part related to local self-government units by defining the manner of project coding in order to establish the uniformity of the codes of all elements of the programme structure. The possibility of opening new programme activities was introduced with the consent of the Ministry of Finance. Based on the requests of local self-government units and the analysis of the Ministry of Finance, Annex 5 was updated, Programme Budgeting Instructions containing a uniform programme structure. Citizens' Budgets of the RS for 2020 and 2021⁵ were prepared and published on the official website of the Ministry of Finance.



Illustration 2: Setting the structure of the budget programmes of state authorities

In order to further elaborate the Planning System Law of the Republic of Serbia and the Decree on the Methodology for the Development of Medium-Term Plans, the Manual for the Development of the Medium-Term Plan was prepared within the IPA 2015 Public Administration Reform Support Project and published on the PPS website on 22 March 2020. The Manual is primarily intended for civil servants: ministries, administrative authorities within ministries and special organizations, given the specifics of the planning system and budget procedures at the national level. However, the key concepts and rules of medium-term planning set out in the Manual are also relevant for the reporting entities of medium-term planning at the local level. In addition to the above Manual, the Calculation of costs for planning documents and regulations has been

⁵ <https://mf.gov.rs/dokumenti2/gradjanski-budzet>

prepared. The Public Policy Secretariat, in cooperation with the Ministry of Finance, has prepared an overview of the methodological framework for determining and calculating standard costs for the preparation of planning documents and regulations by type of cost. The mentioned calculation can be found on the RSJP website, at the following link: <https://rsjp.gov.rs/cir/obracun-troskova-za-planska-dokumenta-i-propise/> Moreover, it will significantly improve the quality of planning documents and their uniformity.

- During 2020, the preparation of five medium-term plans began, specifically plans of: Ministry of the Interior, Ministry of Finance, Ministry of Culture and Information, Republic Geodetic Authority and the National Employment Service, which continued after the delay due to COVID-19 and the submission of draft financial plans, i.e. as of September 2020, after the commencement of the RS Budget Law drafting. The Ministry of the Interior and the Ministry of Culture and Information have slowed down work on drafting their medium-term plans. The Ministry of Finance, Ministry of Public Administration and Local Government, Public Policy Secretariat, Ministry of Defence, Republic Geodetic Authority, Geological Survey Institute and the National Employment Service have published their medium-term plans for the period from 2021 to 2023 on their respective websites.

Also, in order to strengthen the capacity of public administration authorities, in 2020, the PPS organised in cooperation with the National Academy for Public Administration three training sessions dedicated to medium-term planning entitled: "Training of trainers and mentors in the field of public policy - module 4, Medium-term planning". In this regard, 16 civil servants were trained.

Funding of the measure

- Support to local governments for the improvement of programme budgeting was mostly provided within the Exchange 5 Program funded by the European Union through the allocation for IPA 2014;
- The Budget System Law of the Republic of Serbia for 2021 has earmarked the funds in the amount of 34.7 million dinars for the improvement and maintenance of the Budget Preparation System (BIS);
- The preparation of medium-term plans was supported by funds provided under the project of complementary technical assistance "Support to public administration reforms within the sectoral reform agreement" funded by IPA 2015.

Key challenges

- Improving the IT system for budget preparation and programme performance reporting;
- Strengthening the capacity of the Budget Department and budget beneficiaries in the field of programme budgeting;
- Optimization of the existing strategic framework is a prerequisite for the effective development of Medium-Term Plans for mid-term planning. Depending on the progress in the optimization of the strategic framework, the preparation of future medium-term plans for medium-term planning reporting entities at the national level will be planned.

Planned for the coming period

- Continuous improvement of knowledge of civil servants and employees in local self-governments in the field of programme budgeting and monitoring and programme performance reporting;
- Further activities on optimizing the strategic framework for the remaining areas of planning;
- Feeding the adopted medium-term plans into the Unified Information System for Planning, Monitoring Implementation, Policy Document Coordination;
- PPS mentoring support for the development of medium-term plans of the medium-term planning responsible entities at the national level;
- Establishing support and providing support for the development of medium-term plans of local self-government units.

MEASURE - ENHANCED PLANNING OF PUBLIC INVESTMENTS

Key results by the end of 2019

- On 27 June 2017, the Government adopted Decree on the content, manner of preparation and assessment and monitoring the implementation and reporting on the implementation of capital projects (hereinafter: Decree on Capital Projects) which came into force on 1 January 2018;
- The percent of capital projects budget execution in 2017 amounted to 74.5 percent, while in 2018 it amounted to approximately 85 percent;
- In March 2018, Rulebook on the content, deadlines, and procedure for submitting investment documentation for capital projects was adopted;
- On 25 April 2019, the Government of the Republic of Serbia passed the Decision on the establishment of the Capital Investment Commission ("Official Gazette of RS", no. 30), which aims to rank capital investments according to priority objectives contained in valid planning documents, constant development of the capital investment management system, as well as the coordination of the Working Group for the development of a unified methodology for capital investment management;
- On 19 July 2019, the Decree on Capital Project Management was adopted ("Official Gazette of the RS", no. 51), after which the harmonisation between the new Decree and legal framework and the new methodology commenced;
- In the last quarter of 2019, rulebook and forms were adopted in accordance with the applicable Decree on Capital Projects;
- In the second half of 2019, the activities focusing on strengthening capacities of the Department for Fiscal Risk Monitoring of the Ministry of Finance were initiated. They would address management of capital projects and provide technical support to the Capital Investment Commission;
- The share of capital expenditure budget execution in 2019 was 86.34 percent,

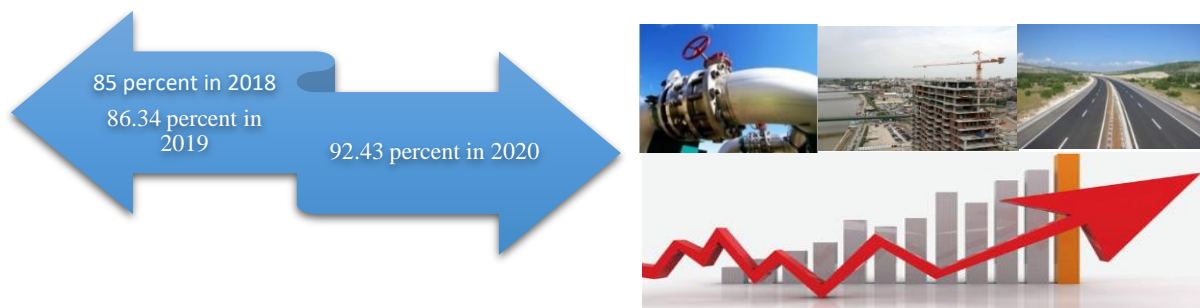


Illustration 3: Share of the capital budget spent by the end of budgetary year

Attained in 2020

- The process of implementation of the Decree on Capital Project Management ("Official Gazette of RS" no. 51/2019) has been actively initiated within the Ministry of Finance and by authorized proposers;
- The total of 3 (three) sessions of the Republic Commission for Capital Investments were held, at which a list of projects of special importance for RS was adopted; a draft list of priority prepared projects, i.e. project ideas was determined. The Commission also considered projects whose implementation was underway;
- In December 2020, international partners (World Bank) organised training sessions for employees of the Group for Capital Project Evaluation and Monitoring of the Department for Fiscal Risk Monitoring.
- The activities on installation of information system "PIMIS" began (the Commission for Quantitative and Qualitative Reception was established in connection with the implementation of the Contract on Public Procurement of Goods - *Information System PIMIS*);
- Work on strengthening cooperation with relevant MoF units (MoF Budget Sector, Treasury Directorate, Public Debt Directorate, etc.) was intensified, in order to harmonize the process for monitoring and evaluation of capital projects with the budget calendar;
- Capital expenditures in 2020 reached 5.2 percent of GDP.

Funding of the measure

The costs of activities carried out under this measure include regular activities, i.e. salaries of employees in the Capital Project Evaluation and Monitoring Group, Department for Fiscal Risk Monitoring, MoF. The World Bank funded staff training (December 2020).

Key challenges

The fully-fledged implementation of new public investment management system implies further strengthening and capacity building, both within the Ministry of Finance and the units responsible for capital investments of other line ministries.

Planned for the coming period

- During the first half of 2021, the development of the Capital Project Management Information System (PIMIS) will continue.
- Further strengthening of organizational and human capacities so that the Capital Project Evaluation and Monitoring Group within the Department for Fiscal Risk Monitoring of the Ministry of Finance reaches its full potential;
- Revision of the rulebook and accompanying forms in order to increase the efficiency of the entire process and get closer to the beneficiaries - the fourth quarter of 2021.

PILLAR II - EFFICIENT AND EFFECTIVE BUDGET EXECUTION

Objective level indicator	Baseline value	2019	2020
Actual revenues and expenditures of the general government budget on an annual basis are in the range of 5 percent of those projected in the Fiscal Strategy			In the range of 5 percent of those projected in the Fiscal Strategy

MEASURE - EFFICIENT REVENUE COLLECTION

Key results by the end of 2019

- The Transformation Committee adopted the Strategy for Service Provision to Taxpayers ⁶ in December 2016;
- During 2017, the Transformation Program of the Tax Administration was revised and a new Action Plan for the period 2018-2023 was adopted by the Conclusion of the Government of the Republic of Serbia, on 5 December 2017;
- **The plan for tax regulation compliance for 2017 was prepared and adopted.** For the first time, an OECD compliance management model was used to develop the Plan;
- **Risk management system was improved.** In accordance with the TADAT⁷ recommendations, a structured procedure for risk assessment and risk prioritization was introduced;
- After the success of the contest "Take the bill and win" in 2017, the Government of the Republic of Serbia, together with NALED, organized a new cycle in 2018. The goal was to raise awareness of citizens and the economy about the importance of combating grey economy, stimulating non-cash payments as an instrument to combat grey economy, strengthening tax

⁶ <http://www.poreskauprava.gov.rs/o-nama/strategija-usluge.html>

⁷ TADAT - Tax Administration Diagnostic Assessment Tool

culture and motivating citizens and the economy to comply with regulations;

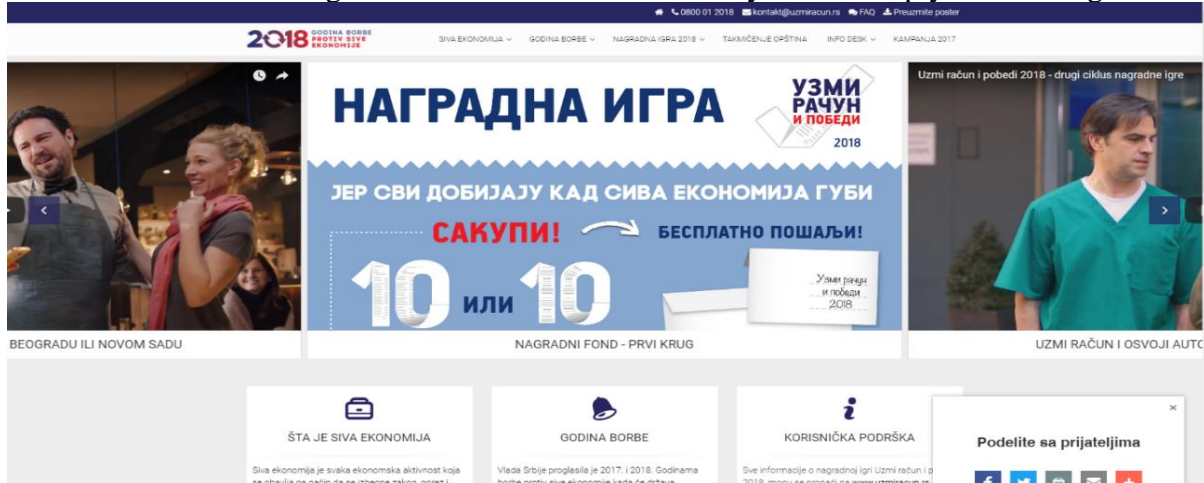


Illustration 4: Source: <http://uzmiracun.rs/>

- In 2018, a total of 922,792 services were provided at the "Your Tax Officer" counter, of which the most information is related to the application of regulations, assistance in filling out tax returns, forms, requests, etc., clarifications of decisions/notices, issuing analytical cards of public revenue accounts, receipt of a request for the issuance of a tax clearance certificate;
- **A new system for regular and forced collection and tax accounting was established.** The system is centralized and enables an automated process of collection of tax liabilities, so that now all actions related to collection and accounting are performed through the application. It has significantly accelerated the process, starting from the issuance of a reminder onwards;
- **A CEPOP4 system has been fully established. It prevents any changes to be made to registration data through the BRA while tax control is ongoing.** The system enables that, if the Tax Administration, Control Department or Tax Police initiates tax control, the registration data cannot be changed until the control is completed;
- **Joint efforts were invested to increase voluntary tax regulations compliance through legislative changes, capacity building and awareness raising; the risk management system was improved and the intensive development of an integrated IT system continued, with the aim of introducing electronic services for taxpayers;**
- The Tax Administration is fully committed to continuing the implementation of the Tax Administration Transformation Programme for the period 2015-2020, the accompanying Action Plan of the Tax Administration Transformation Programme for the period 2018-2023, as well as the recommendation from the document Accelerating Tax Administration Reform of October 2018, identifying core activities of the Tax Administration and separating non-core activities in specific areas of work.
- *Pricewaterhouse Coopers (PwC)* was hired to support the Tax Administration in implementing the activities of separating the core from non-core functions of the Tax Administration (analysis of work processes and resource requirements for each business flow, development of appropriate organizational and management structure and provision of guidelines to implement new arrangements). The final report of the PwC was adopted on the XV Board for the Implementation of the Transformation Programme held on 15 January 2019. At the same time

the implementation plan for the separation of functions and the roadmap with specific activities and deadlines were submitted.

- Enactment on Internal Organization and Job Classification of the Ministry of Finance - Tax Administration 08 Number: 112-01-1 / 374-1-2019 was adopted by the Conclusion of the Government of the Republic of Serbia on 7 June 2019. It created the conditions for the deployment of employees in accordance with the new organizational network of 1 July 2019. It envisages separate functioning of basic and segregated activities. The business network of basic field activities consists of 37 branches at 37 locations, as well as the Large Taxpayers Office (LTO) as a separate organizational unit. Thus, in the first phase of the reorganization, the concentration of control and collection functions for basic activities was performed at 37 locations, and it is planned to have these functions located at 8 to 12 places by 2023.

The business network of separate activities consists of 81 organizational units at 75 locations, namely 75 organizational units in which control activities will be performed and 6 organizational units in which collection operations will be performed.

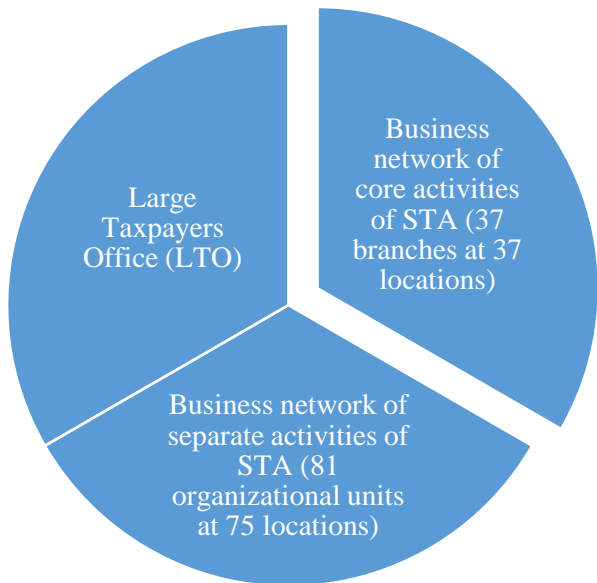


Illustration 5: Stage 1 of the Tax Administration reorganisation

- The functions of human, material resources, ICT, services to taxpayers and tax accounting are performed centrally with territorial distribution that is in accordance with the organization of basic and segregated activities

- The project of developing new software for employee data management was completed, which already in the first phase implements business process modules related to employee data administration (organization management, competitions, personal records, attendance and leave records, career management, reports and integration). Also, the training sessions organised for staff members in the use of new software were completed, and its full use before the middle of 2019 was a precondition for the smooth functioning of

the new organizational structure.

- Redesigning was the precondition for the automation of business processes. It was planned by the World Bank project "Modernization of the Tax Administration of the Republic of Serbia". Component 3 of the project defines the needs of modernization of ICT systems, automation of data exchange and data storage, as well as case management and archiving as key facts for the functioning of the reduced business network.
- As part of the redesigning of core function business processes, **as of 1 March 2019, there is an operational application** that allows taxpayers to obtain: tax clearance certificates for all public revenue accounts, clearance certificates for health insurance contributions, value added tax (VAT) clearance certificates, and withholding tax clearance certificates (for consolidated tax collection)
- The World Bank credit line was ratified by the Law Ratifying the Loan Agreement (Tax Administration Modernisation Project) between the Republic of Serbia and the World Bank -

International Bank for Reconstruction and Development by the National Parliament on 21 May 2019 (“Official Gazette of the Republic of Serbia – International Treaties”, no. 6 of 23 May 2019).

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- **Progress was made on developing a strategic framework for improving taxpayer services and overall organizational arrangements;**
- In 2018, the following training sessions were organised with the support of the project "Public Finance Reform - 2030 Agenda" implemented by the German Corporation for International Cooperation GIZ:
 1. "Application of IFRS in agricultural accounting" for 189 participants;
 2. "Basic training in accounting" for 92 participants;
 3. "Didactic training" for 13 participants;
 4. "Transfer pricing" for employees of the Large Taxpayers Office (LTO) for 33 participants;
 5. "Tax crime investigation method" for 51 participants from the tax police."
- *ERIAN*⁸ system for the control of transit procedures of national (NT) and common transit (T1, T2, T-), implemented through the NCTS (New Computerized Transit System), was established since February 2016;
- In 2017, planning documents for the development of the customs service until 2020 were adopted: RS Customs Service Development Plan for the period 2017-2020 and the Action Plan for the implementation of the Customs Service Development Plan⁹. As a part of the improvement of anti-corruption measures also monitored within the Action Plan for Negotiation Chapter 23 - Judiciary and Fundamental Rights, the Customs Administration conducted a corruption risk analyses of the legal framework governing the customs system¹⁰ and continued to strengthen its capacities through specialised training sessions. In 2016 and 2017, the Internal Control Department of the Customs Administration organised a special set of training sessions "Methods for Corruption Investigation" for 15 customs officers. In 2018, a legal framework was adopted. It defines the competencies of the Department for Internal Control of the Customs Administration¹¹. Moreover, in 2019, within the GIZ project "Public Finance Reform - 2030 Agenda", and in cooperation with the Criminal Police Academy (CPA) training session for 9 customs officers of this Department was organised in methods for detecting and proving criminal offenses and corruption-related criminal offenses. Also, the Customs Administration is implementing a pilot project of the World Customs Organization. The analysis of the questionnaire on strategic corruption risk assessment was prepared and was conducted in 2019 for the purpose of identifying jobs with the highest risk of corruption.
- In December 2017, the project "Creating conditions for strengthening the capacity of the laboratory of the Customs Administration of the Republic of Serbia" was completed, which provided guidelines for the full modernization of the Customs Laboratory. In 2018, 10 employees of the Customs Laboratory underwent the training session in interpretation of the requirements of the *SRPS ISO/IEC 17025:2006* standards. In order to prepare the conditions

⁸ ERIAN is an expert system module primarily intended to provide on-line evaluation of declarations processed by the declaration processing system in accordance with the specifics of the risk model (profile) compiled by risk analysts in ERIAN's central risk profile archive.

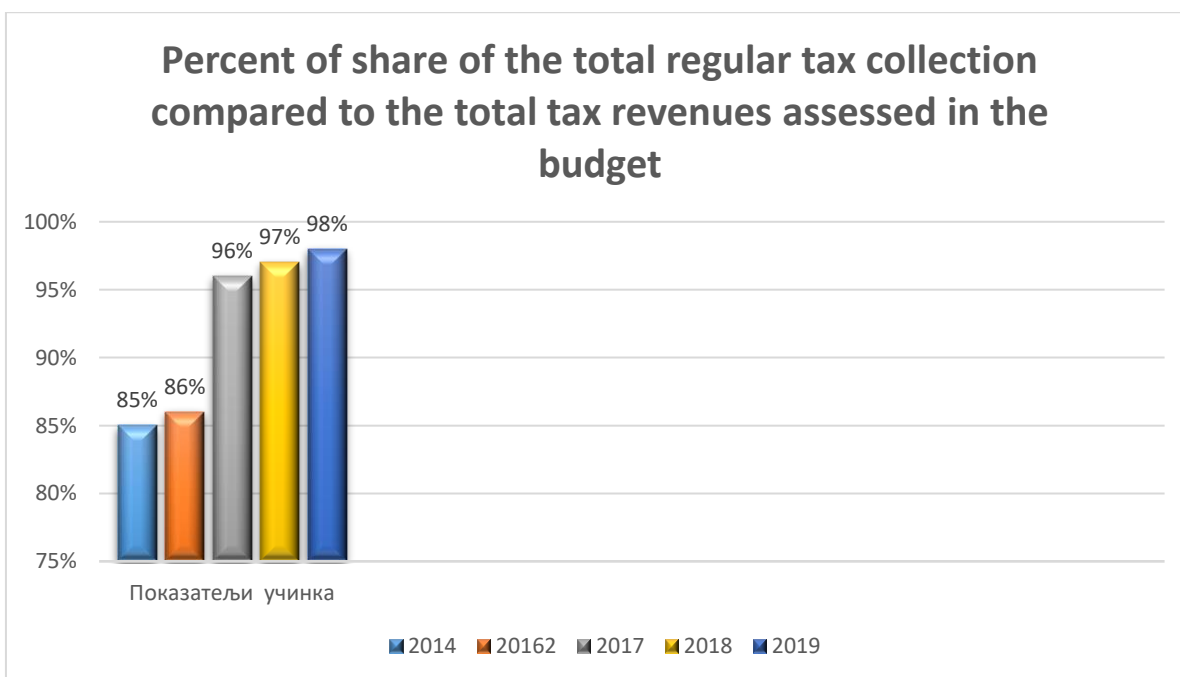
⁹ <http://www.mfin.gov.rs/pages/article.php?id=13484>

¹⁰ The Customs Administration conducted a Corruption Risk Analysis of the legal framework of the customs system based on the Corruption Risk Analysis in Customs Regulations, conducted by the Anti-Corruption Agency. The conclusion of the Risk Analysis points to the need to expand the powers of customs officers primarily through the adoption of the Law on Customs Service, as well as through the adoption of amendments to the Code of Criminal Procedure

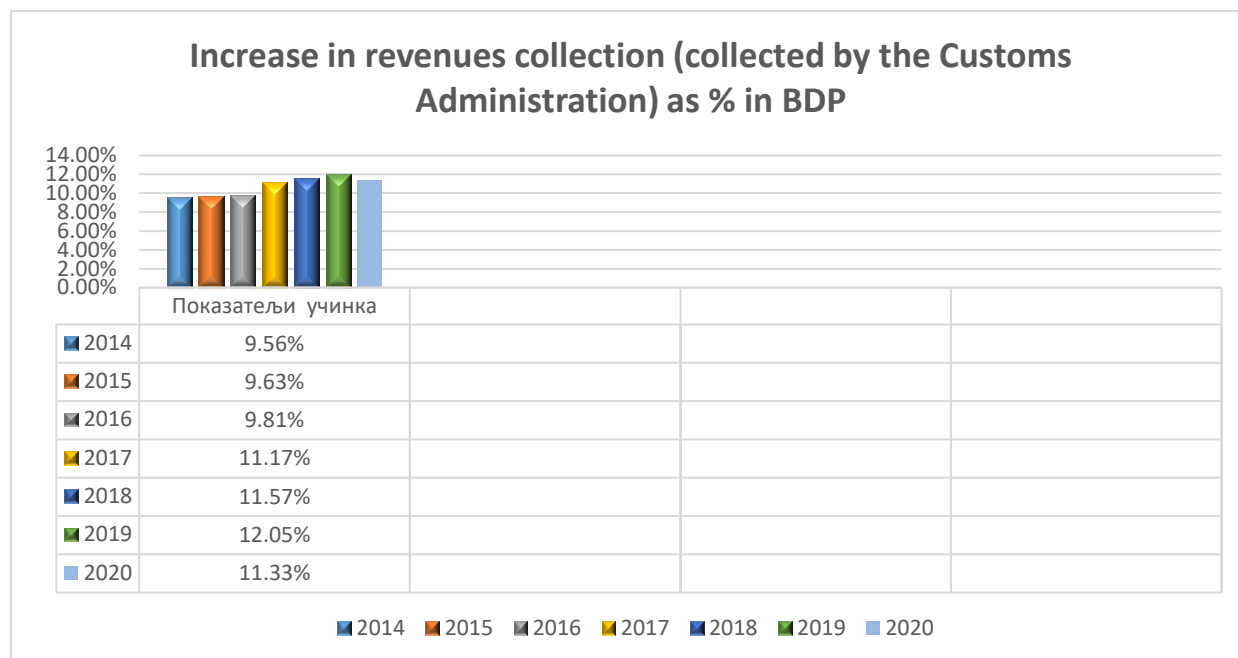
¹¹ Law on Customs Administration <https://www.mfin.gov.rs/propisi/zakon-o-carinskoj-sluzbi-95-2018/>

for the modernization of the Customs Laboratory, in September 2019 the TAIEX expert mission “Improvement and development of Customs Laboratory in Serbia” was conducted, with the Customs Laboratory of the Customs Administration of the Republic of Croatia. The mission aimed to strengthen the laboratory's administrative capacity so as to develop laboratory management policies, quality systems, procedures and working methods in line with EU legislation, standards and best practices.

- From 2016 to 2018, the capacity of the Customs Administration to participate in the preparation of the negotiating position for Negotiation Chapter 33. Financial and budgetary issues was strengthened, through various workshops of the Ministry of Finance; participation in the TAIEX workshop "Establishment of the system of Traditional EU own funds" as well as through technical assistance of the GIZ project and the Customs Administration of the Republic of Croatia in learning about the experience of the Republic of Croatia in the process of introducing and adjusting the system after accession to the European Union;
- By the end of 2018, with the technical assistance of GIZ, a workshop was held for 16 customs officers in order to conduct the first simulation of reporting on Traditional Own Funds. After the workshop, the Customs Administration successfully developed and submitted the Annex to the Questionnaire related to the assessment of the ability of the Republic of Serbia to meet the administrative requirements in the field of EU traditional own resources within the Negotiation Chapter 33;
- In 2018, the Technical Working Group of the Customs Administration was formed to implement the obligations from the Negotiation Chapter 33.
- After drafting the Questionnaire related to the ability of the Republic of Serbia to meet the administrative requirements in the field of European Union Own Funds in 2018, in the course of 2019, the Customs Administration, within its administrative capacity, conducted a simulation of accounting rules and monthly EU reporting for EU traditional own resources.



Graph 3: Percent of share of the total regular tax collection compared to the total tax revenues assessed in the budget



Graph 4: Increase in revenues collection (collected by the Customs Administration) as % in BDP¹²

Key results in 2020

The Tax Administration is fully committed to continuing the implementation of the Tax Administration Transformation Programme for the period 2015-2020, the accompanying Action Plan of the Tax Administration Transformation Programme for the period 2018-2023, as well as the recommendation from the document Accelerating Tax Administration Reform of October 2018, identifying core activities of the Tax Administration and separating non-core activities in specific areas of work.

The past period was a period of significant challenges for the Tax Administration, bearing in mind that, in addition to the reform, the Tax Administration was one of the key actors in the process of financial consolidation of the budget of the Republic of Serbia, implementation of the National Program to Combat the Grey Economy, need to ensure sustainable source of funding for public spending in the context of the SARS-COV-2 pandemic, as well as the need to ensure the implementation of most of the measures taken by the Government of the Republic of Serbia to mitigate the consequences caused by the SARS-COV-2 pandemic.

In such circumstances, the Tax Administration provides stable and increased sources of funding to all of public funds beneficiaries, which are assessed by relevant domestic and foreign institutions.

¹² The data for 2020 is a preliminary data based on the GDP assessment of the Statistical Office of the Republic of Serbia in the current prices as a sum of the last quarter of 2020, which can be conditionally compared with the previous years, due to methodological reasons and the specific situation caused by the COVID-19 pandemic.

After the declaration of the state of emergency, all previous efforts and activities aimed at electronic communication, filing tax returns and providing services to taxpayers electronically came to full expression. The Tax Administration is certainly one of the state administration authorities in the Republic of Serbia that had the most challenges after the pandemic was proclaimed. The challenges also concern the internal structure of the administration, where it was necessary to implement prevention and health protection measures for about 5,000 employees and to the smooth functioning of the system of determining, controlling and collecting public revenues under its jurisdiction, but they are also related to the assistance to the Government of the Republic of Serbia in defining and implementing measures to mitigate negative economic consequences for all taxpayers caused by the pandemic. We formed a Crisis Staff in the administration with three internal teams for operational business activities and for measures to mitigate the consequences due to reduced economic activity.

The situation that befell us at the beginning of the year was extraordinary in every respect and largely uncertain for the general economic flows, of course, consequently for the work and collection of public revenues that we administered.

Out of the total amount of collection in 2020, the Tax Administration collected 1,598.2 billion dinars, while in 2019 it collected 1,572.3 billion dinars. The coefficient of the total collection of the Tax Administration in 2020 compared to 2019 is 101.6. Of the total amount of collection of public revenues in the Republic of Serbia, the Tax Administration collected 64.1 percent in 2020.

НАПЛАТА ПОРЕСКЕ УПРАВЕ								
Наплата 01.01.-31.12.								
								у 000 динара
		2014	2015	2016	2017	2018	2019	2020
1.	Порез на доходак	146 070 785	146 456 325	154 672 423	167 492 757	179 103 296	203 304 004	203 738 410
2.	Порез на добит	73 211 392	63 042 732	80 743 710	112 239 415	113 023 358	127 241 471	123 319 309
3.	ПДВ - Бруто	254 918 632	263 206 677	286 756 940	304 319 453	322 754 552	357 985 496	376 177 408
3.1.	ПДВ - Повраћај	140 963 785	163 143 849	171 235 317	214 559 203	256 438 613	284 324 863	281 142 061
3.2.	ПДВ - Нето	113 954 847	100 062 828	115 521 623	89 760 250	66 315 939	73 660 633	95 035 347
4.	Акцизе	149 767 365	180 348 372	202 794 720	185 305 481	198 738 246	186 449 391	200 994 472
5.	Доприноси	514 141 566	511 833 138	533 969 622	571 931 196	624 441 953	682 579 078	679 334 020
6.	Остало	12 749 259	13 529 627	15 128 950	14 299 285	15 206 032	14 740 342	14 638 641
7.	Укупно	1 150 858 999	1 178 416 871	1 274 066 365	1 355 587 587	1 453 267 437	1 572 299 782	1 598 202 260

In 2020, the Tax Administration focused on completing the activities initiated through the Tax Administration Transformation Programme for the period 2015-2020, as well as on the further continuation of activities defined by the Action Plan of the Tax Administration Transformation Programme for the period 2018-2023. These activities took place as a continuation of the reform changes from previous years, and on the other hand they were carried out through extraordinary demands caused by the COVID-19 pandemic, and the need to draft a new Tax Administration Transformation Programme for the period 2021-2025 within the implementation of the World Bank Loan as financial support for the implementation of further STA reform.

The Tax Administration Transformation Programme for the period 2021-2025 and the Action Programme for the Implementation of the STA Transformation Programme for the period 2021-2025 (hereinafter: Transformation Programme) were drafted through operational communication with the technical mission of the International Monetary Fund (IMF).

Realization of a number of components of the Procurement Plan, defined by the World Bank Loan. These activities should permanently create preconditions for the implementation of key segments of the Transformation Programme.

The key activity in 2020 was the development of the Terms of Reference for consulting services for reengineering business processes in tax affairs, including training of trainers to introduce new functions in the operational units of the Tax Administration of the Republic of Serbia (hereinafter: Terms of Reference for BPR). The mentioned Terms of Reference for BPR should provide for the development of a new Tax Administration business model, which includes reengineering of existing and introduction of new business processes in the Tax Administration in accordance with the best international practice supported by the COTS solution.

The Tax Administration took part in the New Fiscalisation Project (analysis of the report of the legal and technical consultant and definition of proposals and suggestions from the aspect of the needs of the Tax Administration; participation in drafting the Law on Fiscalisation, as well as monitoring activities until the adoption of the Law on Fiscalisation).

The Tax Administration took part in the e-Invoice Project (analysis and proposals from the aspect of the needs of the Tax Administration and participation in the drafting of the Law on Electronic Invoicing).

Activities related to the beginning of the work of the Department for determining the origin of property and special tax. In the last quarter of 2020, a Working Group was formed to implement activities on the implementation of the General Action Plan in order to ensure the beginning of the work of the Department for Determining the Origin of Property and Special Tax.

An amendment to Article 10, paragraph 6 of the Law on Tax Procedure and Tax Administration ("Official Gazette of RS", no. 80/02, ... 144/2020), of 5 December 2020, was adopted. The Law stipulates that the taxpayer may submit a request for a refund or transfer to another account of overpaid or erroneously paid tax in electronic form through the portal of the Tax Administration.

The amendment to the LoTPTA has been in force since 1 January 2021, which made it easier for taxpayers to submit a request for refund and transfer of overpaid or erroneously paid tax, have insight into the status of the submitted request, as well as receive the decision in the tax box.

In 2020, a Protocol was made with the Treasury Administration for the establishment of a mechanism for electronic submission and enforcement of orders for the refund and transfer of funds, and in addition to benefits it provides to taxpayers, it has made the work of the Tax Administration more efficient.

Implementation of projects and activities in cooperation with the international technical assistance

The Tax Administration Employee Satisfaction Survey was made possible through the Platform for Responsible Public Finance Management, implemented by the United Nations Development Programme (UNDP) and funded by the Swedish International Development Cooperation Agency (SIDA). The survey was conducted in the period 8 August - 9 October 2020 and the first preliminary report was submitted to the Tax Administration in November 2020. Through the implementation of this project, from the aspect of the TA transformation, the Tax Administration has introduced a modern tool for measuring human resources management: It does

not only measure the attitudes and motivations of employees, but also the effects of the transformation phases of Tax Administration from the human resources aspect.

In order to create opportunities for the inclusion of as much citizens as possible in the process of combating the grey economy, the Tax Administration, in cooperation with the United Nations Development Programme (UNDP), launched an application adapted to the common citizens so that they can report all cases of the grey economy - "Tax Alarm".

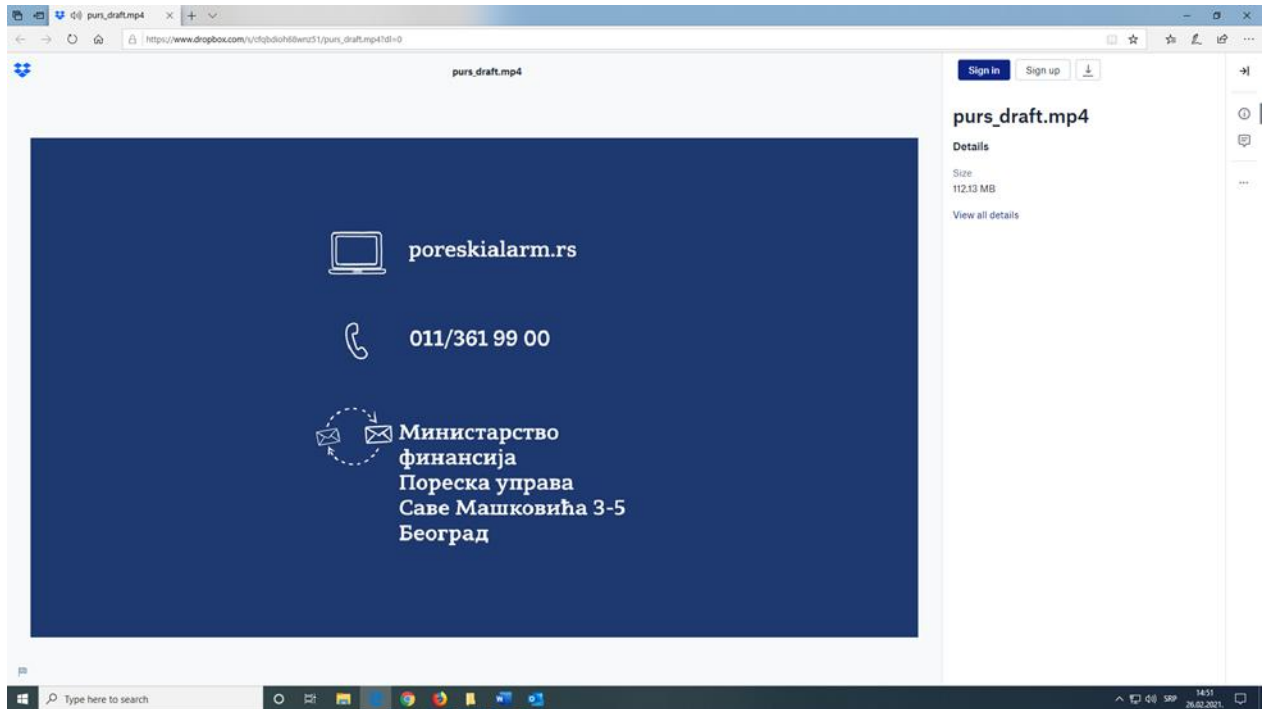


Illustration 6: Website "Tax Alarm"

The Tax Administration controls taxpayers through risk analysis by industry and also on the basis of indicators of observed business failures.

To that end, a new web page was registered with the name - tax alarm (<http://poreskialarm.rs> or <http://poreskialarm.gov.rs>). The citizen can use it to report observed irregularities in the work of taxpayers which have a special significance for the Tax Administration in terms of efficient action.

The intention is to enable citizens to report, via new internet domain, on taxpayers in which business operations they have noticed irregularities, i.e. all those who do not comply with the Law and evade payment of taxes and other public revenues.

Citizens can report observed irregularities in all forms of public revenues administered by the Tax Administration, among which the most common are non-issuance of fiscal receipt, VAT, employment status of hired workers and other irregularities in business operations.

Through the Project "Public Finance Reform - 2030 Agenda", in cooperation with GIZ, in order to implement activities to further improve human resources in 2020, the ToR "Improvement of the human resources management function" is defined with the expected results that the engaged consultant should delivered by April 2021. The project started to be implemented in 2020 with the aim of ensuring the development of a four-year Employment Plan for Key Positions in the Tax

Administration; drafting a Personnel Retention Plan, Analysis and Recommendations in the Recruitment Process and Recommendations for Development and Implementation of EU Best Standards and Practices in the Field of Human Resources, Proposal of Optimal Organizational Structure of the Human Resources Sector and Recommendations according to Best International Standards and Practices in the Field of Human Resources.

Within the cooperation with the German Corporation for International Cooperation - GIZ, the research agency IPSOS conducted an analysis of taxpayers perceptions of the work of the Tax Administration of the Republic of Serbia, through a survey of taxpayers satisfaction with the service quality and professionalism of Tax Administration employees. The aim of this survey was to obtain feedback from taxpayers on the evaluation of the Tax Administration's performance in the surveyed areas of service provision, access to information, professionalism of employees, transparency in work, consistency in the application of tax regulations and treatment of taxpayers.

Satisfaction with the quality of services provided, as well as an assessment of the degree of trust that STA enjoys in the wider community, after significant changes and improvements in the segment of support to taxpayers, was measured through surveys of service users whose results showed:

- that all TA services were rated as important by most of the companies that participated in the surveys;
- that the TA was transparent in resolving tax issues;
- that the trend of growing satisfaction with the simplicity of tax calculation procedures and filing tax returns with the Tax Administration continues;
- that the share of dissatisfied companies with the TA internet portal and electronic tax return filing was significantly lower compared to 2019;
- expressed satisfaction of the users of the "Your Tax Officer" counter service: 76 percent were satisfied with the services provided, 24 percent were dissatisfied with the services provided;

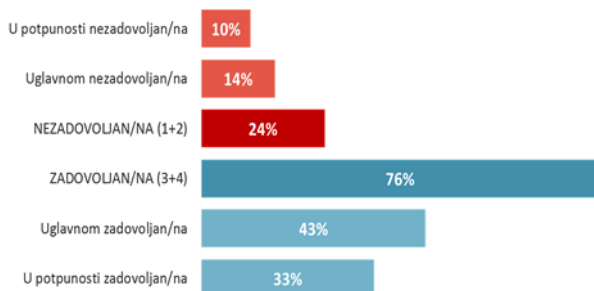


Illustration 7: Expressed satisfaction of the users of the "Your Tax Officer" counter service

In 2020, Department for Service Provision to Taxpayers and Education provided 930,930 services.

The total of 780,066 services were provided at "Your Tax Officer" counters.



Illustration 8: Tax Administration Contact Centre

The Contact Centre provided 127,635 information by telephone, 15,256 information by e-mail, responded by e-mail to 1,438 requests for information on the balance of individual taxpayers' tax accounts, and received 1,490 EKFL / EKPL forms.

As part of the redesign of basic function business processes, from 1 January 2020, the flat-rate taxation system was improved in terms of enabling automation of tax assessment, as well as providing information to individuals and entrepreneurs on the amount of tax liability in the coming period through the Tax Administration Portal (flat tax and contributions calculator).

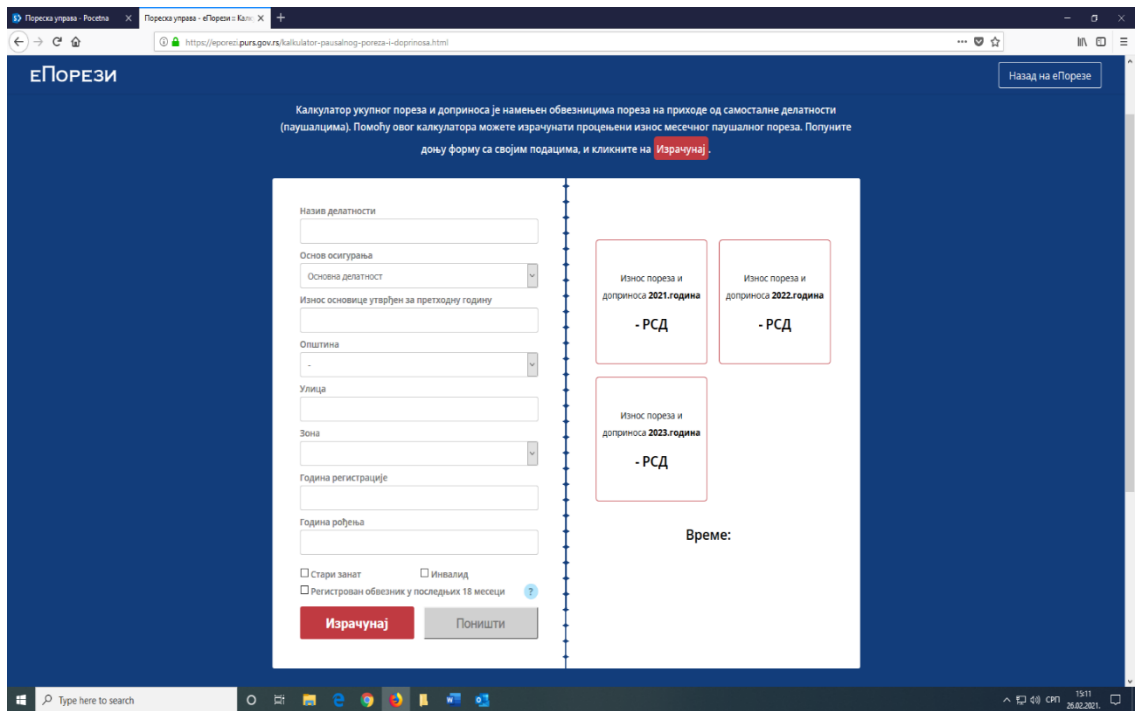


Illustration 9: Web page “ePorezi”

Training sessions for tax officers in 2020 were restricted due to the epidemiological situation caused by the spread of the infectious COVID-19 virus, caused by the SARS-CoV-2 virus and the proclamation of the state of emergency. In the period from 1 January to 31 December 2020, a total of 18 topics were covered for 2,003 participants.

If we look at the results of the survey in terms of satisfaction of taxpayers with the services provided to them, all these services of the Tax Administration were assessed as important by most of the surveyed companies. Three quarters of companies pointed out that they were satisfied with the services provided by the Tax Administration (from 75-94 percent of respondents, depending on the type of service), and especially with the benefits provided by filing a tax return electronically. The share of satisfied users with submitting and paying liabilities electronically and those who believed that the Internet portal of the Tax Administration provided useful information was significantly higher (6-9 percent) compared to the previous year.

Participation, together with the Government of the Republic of Serbia, in the organization and implementation of the contest "Take the bill and win 2020", in order to provide continuous activities from the National Programme to Combat the Grey Economy.

The process of implementation of new human resources software was finalised. It automated the human resources management process. However, further work on software development is needed. In the first phase, business process modules related to the administration of employee data (organization management, vacancies, personnel records, attendance and leave records, career management, reports and integration) were implemented. In the second phase, the realization of the business process module is expected according to the list of functional requirements.

In 2020, in the specific situation caused due to the outbreak of the COVID-19 pandemic, the Customs Administration successfully realized the collection of public revenues provided by the Law on Amendments to the Budget System Law of the Republic of Serbia for 2020 ("Official Gazette of RS", no. 135/2020) specifically: planned collection based on custom duties by 2.2 percent, and based on value added tax from imports by 1.15 percent. The total revenues collected in 2020 are lower by 5.2 percent or RSD 33,932,316,392.29, or by EUR 288,553,768.74. The Customs Administration continued to strengthen its administrative and operational capacities, as well as to carry out activities of importance in areas of establishing a system of EU traditional own resources, modernizing the Customs Laboratory and improving anti-corruption measures.

After drafting the Questionnaire related to the ability of the Republic of Serbia to meet the administrative requirements in the field of European Union Own Funds in 2018, in the course of 2020, the Customs Administration, within its administrative capacity, conducted a simulation of accounting rules and monthly EU reporting for EU traditional own resources (TSSEU). Also, within the technical assistance project "Support to the Ministry of Finance under the Sectoral Reform Agreement" from IPA 2015, the Customs Administration, with the assistance of experts, prepared a "Comparative analysis of existing domestic legislation related to TSSEU and recommendations for full implementation of EU regulations on TSSEU and necessary changes and amendments to the enactments" and the draft "Ex-ante assessment of the administrative capacity of the CA for the full implementation of the TSSEU system".

In the course of 2020, within the technical assistance project "Support to the Ministry of Finance under the PAR Sector Reform Contract", the activity "Development of a scenario for the modernization of the Customs Laboratory facility" was initiated. Three meetings of the representatives of the Customs Laboratory with the expert were held, guidelines were given regarding the organization of the future space in accordance with the planned equipment and work processes. As a result of this activity, the development of three scenario models for the future Customs Laboratory is expected, as well as the financial assessment of all three models.

Within the GIZ project "Public Finance Reform - 2030 Agenda", and in cooperation with the Criminal Police University (CPU) in 2020, a series of meetings were held for discussing the topic of improving legal and professional capacities of customs officers in the implementation of authorities under the Law on Customs Service. The aim of these meetings was to develop internal procedures and instructions for the conduct of internal control, and organizing training sessions accordingly. The planned deadline for the completion of this activity is scheduled for the end of the first half of 2021. Also, based on the analysis of the Questionnaire on Strategic Risk Assessment for Corruption, the Customs Administration updated the Risk Atlas for 2020, in order to identify jobs with the highest risk of corruption.

In 2020, the primary activities of the Customs Administration were to improve the selectivity of inspections as well as the continuous control of risky shipments during import, export and transit to the customs territory of the Republic of Serbia. In addition to the above, several activities were implemented at the level of the Western Balkans region, primarily in the implementation of the Joint CEFTA Risk Management Strategy. In 2020, 113 risk-related information was received from other organizational units of the Customs Administration, other state authorities of the RS and through international exchange. Based on the mentioned information as well as on the basis of operational analyses, 261 criteria were created for selective review at all levels of risk management and 36 risk profiles for transit procedures.

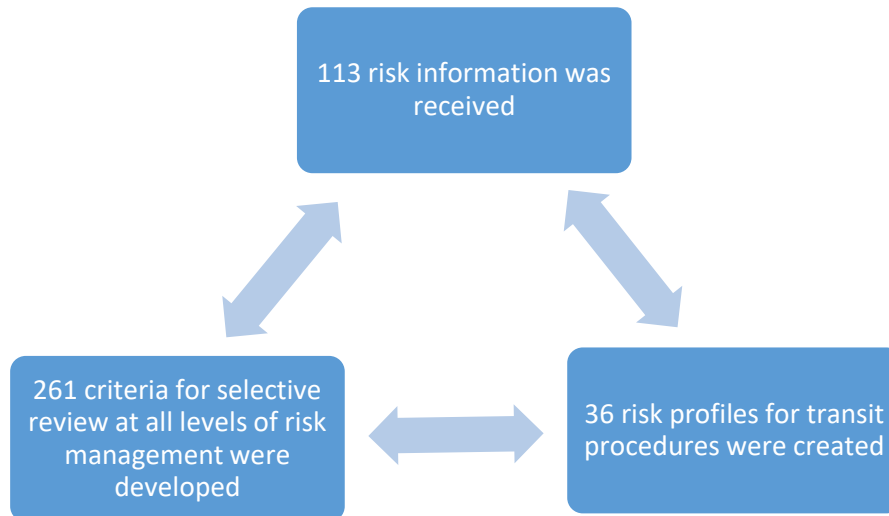


Illustration 10: IT support for selectivity inspection operations in transit procedures

In 2020, the Tobacco Administration conducted a public procurement procedure for the service of creating an integrated information system that would consolidate all registers and record lists kept by the Administration. The contract was concluded with the company AIGO BS d.o.o, a project team was formed and the development of the information system began. The establishment of a new information system of the Tobacco Administration would enable the formation of a database, exchange of data with other state authorities, as well as the improvement of data security managed by the Administration. Due to the consequences of the COVID-19 pandemic, the completion of activities for the establishment of an integrated information system, as well as its improvement, were postponed to 2021.

Funding of the measure

The Tax Administration used budget funds and donor funds to finance activities of importance for the implementation of the Programme. Activities of importance within the scope of the Customs Administration were financed through the funds of donor and technical assistance of the European Commission through: IPA 2013 project "Creating conditions for strengthening the capacity of Serbian Customs Laboratory" with 225,000 euros (95 percent of the EU budget and 5 percent of national co-financing), TAIEX, German development assistance through the project "Public Finance Reform -2030 Agenda", implemented by GIZ, and the technical assistance project "Support to the Ministry of Finance under the PAR Sector Reform Contract" from IPA 2015.

Activities of importance within the scope of the Tobacco Administration were financed from the budget funds of the Republic of Serbia, which, due to the pandemic, were redistributed to 2020 and 2021.

Key challenges

- Preparation of the document Tax Administration Transformation Programme for the period 2021-2025 and harmonization of the Action Plan for the period 2018-2023 with a new

document. Monitoring and managing the implementation of the Action Plan of the Transformation Program within the set deadlines.

- Implementation of part of the activities of the Customs Administration within the technical assistance project "Support to the Ministry of Finance under the PAR Sector Reform Contract", which includes training for several customs officers, were postponed due to epidemiological restrictions caused by the COVID-19 pandemic.
- Due to the epidemiological situation caused by the spread of COVID-19, as well as proclamation of the state of emergency, the activities of the Tobacco Administration were redistributed to 2020 and 2021.

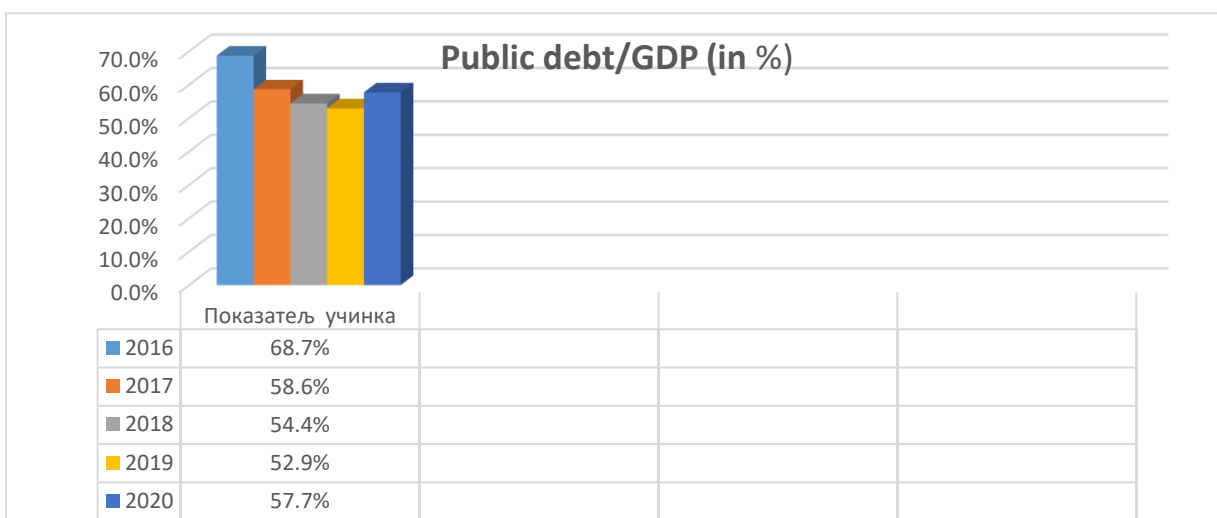
Planned for the coming period

- In the coming period, the activities of the Tax Administration will be focused on further establishment of a modern infrastructure and working environment within the organization and improvement of the basic functions of the STA. In addition, work will be focused on improving basic support functions, such as electronic services and the development of services for taxpayers, improving risk management, control function, invoicing, tax and legal affairs, and the work of the tax police. **It is planned to further strengthen strategic management, improve and simplify the basic functions of the Tax Administration, improve the organizational structure and business processes that lead to more efficient provision of services to taxpayers, as well as to improve the efficiency of tax collection and reduce the burden on taxpayers.**
- In 2021, the Customs Administration plans to conduct a workshop on "Providing consulting assistance related to the collection, accounting and reporting of Traditional Own Funds - Preparation for the monitoring mission in the Customs Administration of the Republic of Serbia" through the project "Public Finance Reform-2030 Agenda". Also, through the technical assistance project "Support to the Ministry of Finance under the PAR Sector Reform Contract", the finalization of activities related to the development of capacities for full implementation of TSSEU regulations and reporting on EU revenues is expected.
- In the following period, it is planned to further improve the process for financial security of customs debt, as well as to begin the preparation of the project to improve the management and public sale of seized customs goods and the development of customs infrastructure for special purpose warehouses. Also, the implementation of automation of import and export declarations and the development of new ICT solutions in the Customs Administration are planned.
- It is planned to prepare a project proposal for further modernization of the Customs Laboratory.
- The Tobacco Administration is working intensively on modernization and automation of its business processes, and in the next period it is planned to finalize the information system by June 2021, as well as to organise necessary training sessions of employees in the Tobacco Administration and users - businesses entities operating in the tobacco and tobacco products market by the end of 2021.

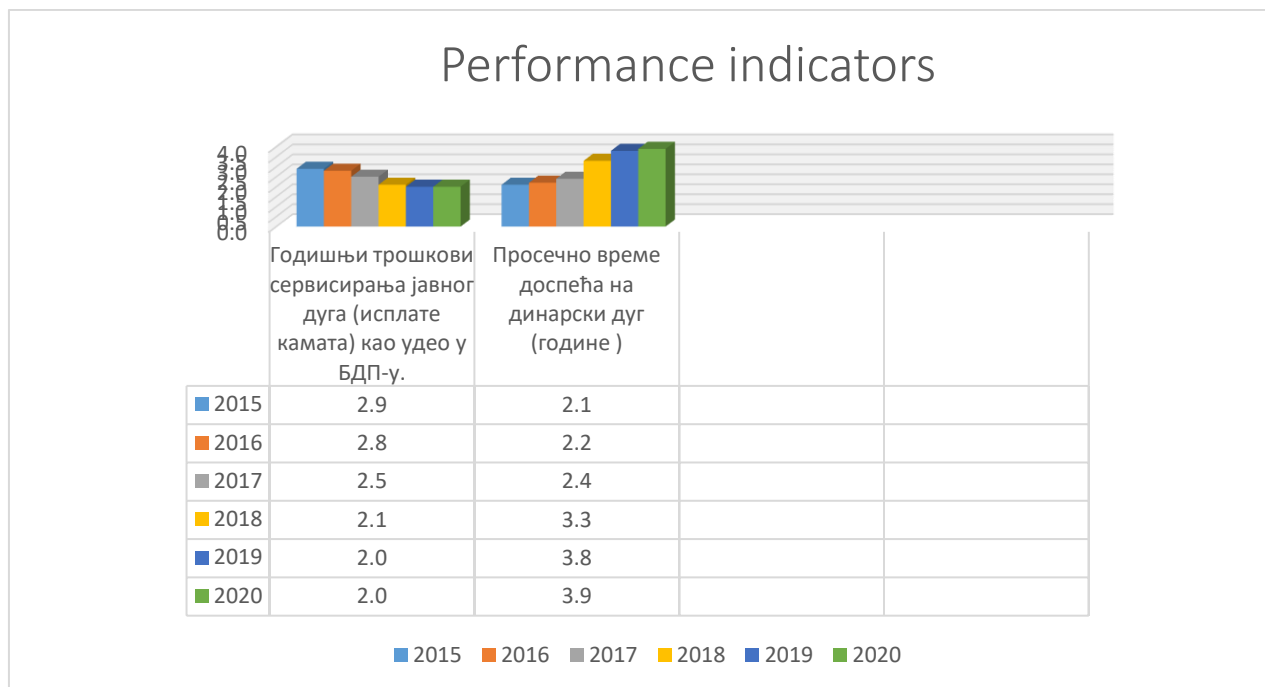
MEASURE - PUBLIC DEBT MANAGEMENT CAPACITIES IMPROVED

Key results by the end of 2019

- In the period from the end of 2015 to the end of 2019, public debt in GDP fell by 18.3 percentage points at the general government level, while in 2017 alone the decrease was 10.1 percentage points;
- The capacity of the Public Debt Administration (PDA) was improved by strengthening human capacity through learning based on best practice experience and the development of public debt management software;
- Significant progress was made in increasing the average maturity of dinar government securities and reducing financing costs, which reduced RS's exposure to refinancing risk;
- The currency structure of public debt improved, leading to a reduction in currency risk;
- The guaranteed public debt was reduced by half.



Graph 5: Public debt/GDP - general state (in %)



Graph 6: Annual costs of public debt servicing (interest rate payments) as a share in the GDP and Average debt maturity for dinar debt

Attained in 2020

After the successful implementation of fiscal consolidation measures in 2016, the growing path of public debt and the share of public debt in GDP was reversed, and the share decreased from 71.2 percent of GDP at the end of 2015 to 52.9 percent of GDP at the end of 2019. At the end of 2020, the share of public debt in GDP at the general state level was 58.2 percent.

Thanks to increased control over the issuance of state guarantees, guaranteed public debt fell from EUR 2.8 billion at the end of 2013 to EUR 1.4 billion at the end of 2020.

The share of interest expenses in GDP fell from 2.9 percent at the end of 2015 to just below 2.0 percent at the end of 2019. This was primarily due to the fall in interest rates on the domestic securities market, which was largely caused by the growth of investor confidence, after the fiscal consolidation measures were taken. The weighted average interest rate on public debt fell from 5.70 percent at the end of 2014 to 2.91 percent at the end of 2020. The average coupon rate on dinar government securities decreased from 11.96 percent at the end of 2012 to 4.74 percent at the end of 2020.

The share of public debt in domestic currency in the total public debt of the central government at the end of 2008 was only 2.8 percent, and by the end of 2020 it had risen to 30.5 percent. The growth of dinar debt was primarily contributed by issues of dinar government securities on the domestic securities market. During 2019 and 2020, early redemption of expensive Eurobonds issued in 2011 and 2013 in US dollars was performed, and during February 2020, regular repayment of bonds issued in 2013. Thanks to these transactions, the share of dollar debt in the total public debt decreased from 33.9 percent at the end of 2016 to 13.2 percent at the end of September 2020.

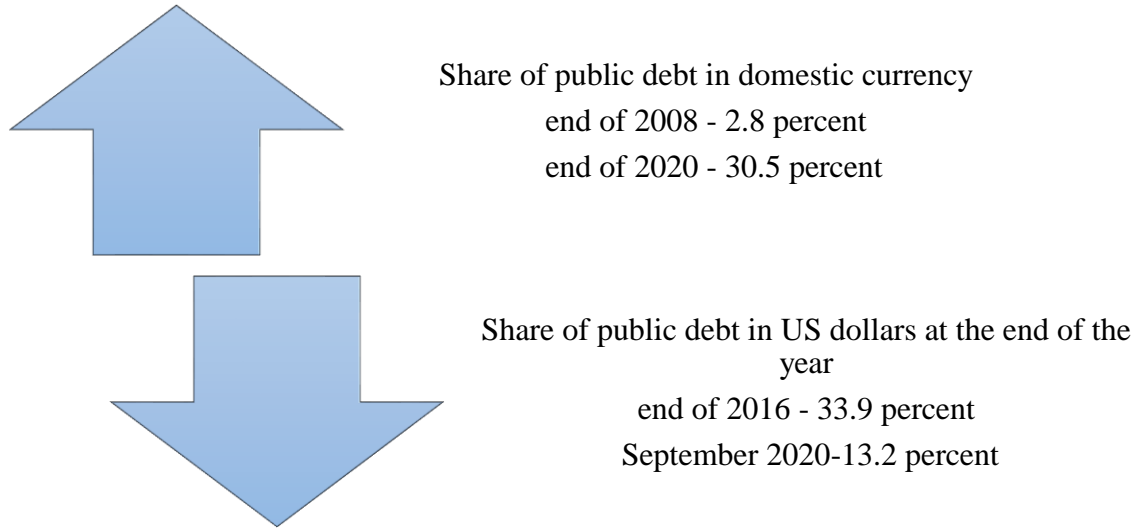


Illustration 11: Share of public debt in domestic currency and US dollars

Guided by the best international practice of active public debt management, i.e. the use of financial derivatives for the purpose of hedging against foreign exchange and interest rate risk, in accordance with the international ISDA (International Swaps and Derivatives Association) standards, in December 2020 a cross-currency swap transaction was realized thus converting liabilities based on the issued Eurobond in US dollars into euros at a significantly lower final coupon rate. The new ten-year Eurobonds were issued in the amount of 1.2 billion US dollars at a coupon rate of 2.125 percent, while the coupon rate in euros, after the realization of the hedging transaction, amounted to 1.066 percent. With the funds of the new issue, the early repayment of 900 million US dollars of Eurobonds issued and realized in 2011 at a very high coupon rate of 7.25 percent was executed.

Funding of the measure

In order to strengthen the capacity of the PDA, *USD 300,000.00* was invested. Most of the funding comes from the Swedish International Development Agency (*SIDA*), in the form of a project implemented by UNDP. The funds needed for further steps will be provided from the state budget, EU support funds and bilateral donations.

Key challenges

- Providing funds for the implementation of all activities envisaged by the Action Plan;
- Further impact of the COVID-19 pandemic;
- Global risks related to the financial market, although outside the direct control of the PDA, MoF or the Government of Serbia, may affect the achievement of planned goals.

Planned for the coming period

- Further activities will be undertaken to continue the development of a methodology for conducting public debt sustainability analyses with a view to finalizing them through the upgrade of the IT system;
- Further activities on preparation of regulations and accompanying enactments that will define and enable the introduction of the system of primary dealers on the securities market with constant cooperation with the IMF, in order to achieve the greatest possible impacts on the development of the securities market while reducing risk;
- Upgrading the existing information system (PDMS) - using business intelligence tools, to improve reporting.

MEASURE - IMPROVING LAWS AND REGULATIONS AND PROCEDURES FOR PUBLIC PROCUREMENT

Key results by the end of 2019

- Transparency in public procurement planning increased after the changes in the legislative framework in 2015 and the introduction of the obligation of contracting authorities to publish public procurement plans on the Public Procurement Portal;
- The harmonization of national legislation with the relevant EU directives achieved by adopting a new Public Procurement Law;
- A new Public Procurement Portal has been set up, <https://jnportal.ujn.gov.rs/> ;
- Progress has been made in increasing the capacity of participants in public procurement procedures;
- The target value of 2,300 certified public procurement officers has been reached;
- The number of suspended proceedings decreased from 13 percent in 2014 to 10 percent in 2017, while in 2020 it was 9 percent;
- In the period between 2014 and 2019, there was a significant reduction in the average duration of the open public procurement procedure, from 77 days in 2014 to 62 days in 2019. This trend continued in 2020, so that the average duration of the open procedure in 2020 was 52 days.

Attained in 2020:

In 2020, the implementation of the activities "Implementation of the process of Public Procurement Administration institutional strengthening" continued¹³ in order to increase its operational capacity." In this regard, after the adoption of the Rulebook on Internal Organisation and Job Classification, number: 110-00-2/2020-1 of 2 November 2020, a total of 36 systematized jobs are foreseen in the Public Procurement Office, of which 4 are civil servant in an appointed position, and the maximum number of civil servants that can be employed is now 55 in relation to the maximum of 38 civil servants according to the previous Rulebook on Internal Organization and Job Classification.

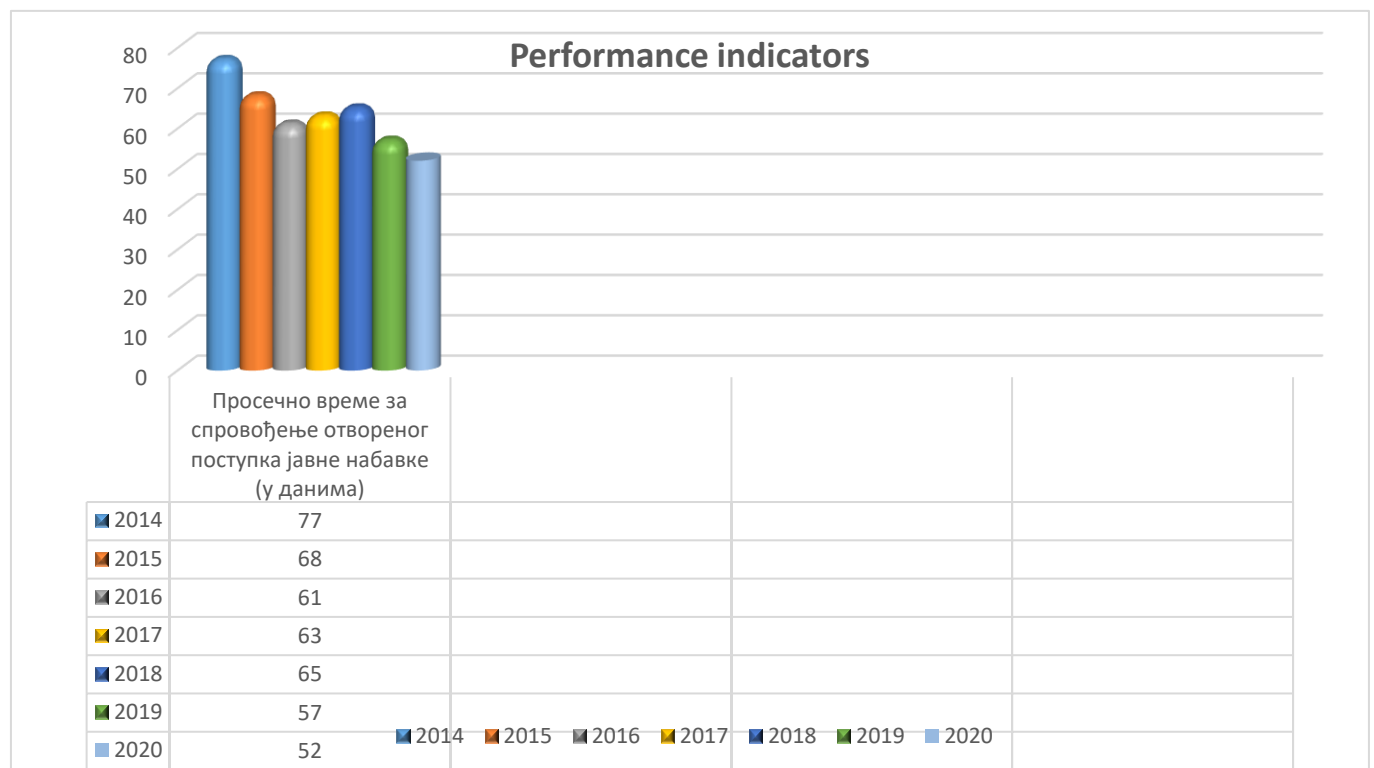
At the proposal of the Public Procurement Administration, in November 2019, the Government of the RS **adopted the Public Procurement Development Programme for the period 2019-2023 and the accompanying Action Plan for the period 2019-2020**, which define

¹³As of 1 July 2020, the Public Procurement Administration changed its name to "Public Procurement Office".

the public policy in the area of public procurement for the following period of five years. This programme consists of four specific objectives and one general objectives "Further development of a modern and efficient public procurement system". During the first quarter of 2021, and after the conducted public on-line consultations and public debate, the adoption of the Action Plan for the implementation of the Public Procurement Development Programme for 2021 is expected. Also, Guidelines for Green Public Procurement were prepared and published on the website of the Public Procurement Office¹⁴.

Moreover, with the support of the project "Support to further improvement of public procurement system in the Republic of Serbia" from IPA 2013, implemented by GIZ, Guidelines for Framework Agreements were developed and published, which will reduce administrative burdens and time invested in the public procurement process.

One of the significant features of public procurement is the indicator of the duration of the procedure (counting from the day of publishing the call on the Public Procurement Portal to the day of making the decision on awarding the contract or suspending the procedure). Regarding this indicator for procurements conducted by an open procedure, in 2020 it was 52 days.



Graph 7: Average time for conducting an open public procurement procedure (in days)

As planned, further harmonization with the currently valid directives of the European Union was achieved by the **adoption of the Public Procurement Law ("Official Gazette of the RS", no. 91/19) on 24 December 2019**. The new Public Procurement Law entered into force on 1 January 2020, and came into effect on 1 July 2020. New Public Procurement Portal depicts the new legislative framework and is in effect since 1 July 2020.

¹⁴ http://eupodraska.ujn.gov.rs/wp-content/uploads/2020/01/Smernice-Zelene_JN.pdf

Funding of the measure

It was planned to invest RSD 40.7 million in the implementation of activities under measure 10, which was defined in the 2016-2020 Public Financial Management Programme. For the implementation of this measure but also the activities within measure 2.3, defined by the revised 2016-2020 Public Financial Management Programme for the period from July 2019 to December 2020, funds were partly provided from the budget of the Republic of Serbia, and partly through the IPA 2013 project "Support to further strengthening of public procurement system in the Republic of Serbia". The value of the project, initiated in July 2017 and extended 4 times, amounts to 3,256,830 euros.

Key challenges

- Further prevention of corruption in public procurement procedures;
- Improving the public procurement system in terms of strengthening competition in the public procurement market, increasing the number of green public procurement and innovation;
- Strengthening the capacity of all participants in public procurement procedures (contracting authorities and bidders) in terms of implementing the new legislative framework and the new electronic platform;
- Improvement of the Public Procurement Portal with new functionalities.

Planned for the coming period

- Continuation of certification of public procurement officers in accordance with the provisions of the new Public Procurement Law;
- Development and publication of practical/supporting tools necessary for the implementation of the new legislative framework (guidelines, instructions, models of tender documentation, etc.);
- Organizing trainings for contracting authorities and bidders concerning the implementation of the new legislative framework and the new Public Procurement Portal;
- Development of new functionalities on the Public Procurement Portal;
- Capacity building in the Public Procurement Office through new employment.

PILLAR III - EFFECTIVE FINANCIAL CONTROL

Objective level indicator	Initial value	2019	2020
Increased number of performed reviews of the work quality in the field of financial management and control and internal audit organized by the CHU	6 for internal audit +0 for financial management and control	10 for internal audit + 2 for financial management and control	10 for internal audit + 2 for financial management and control
Number of confirmed Management Declarations	12	16	17
Number of EC audit findings against the number of implemented audit recommendations	5	6	4
Increased number of conducted inspections	25	+5 percent	+5 percent

MEASURE - IMPROVED IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION IN ACCORDANCE WITH INTERNATIONAL STANDARDS AND PRINCIPLES

Key results by the end of 2019

- For many years now, the PIFC has continuously had a complete strategic and legislative framework along with its continuous further improvement.
- The first two reviews of the quality of internal controls in the RS at PFBs were conducted with technical assistance, which made this a regular activity of CHU.
- The quality of internal audit work at public funds beneficiaries continued to be reviewed. CHU reviewed the quality of IA work at ten PFBs, for the period from 1 January 2018 to 30 September 2019. The recommendations of the quality review are included in the Consolidated Annual Report on the State of the PIFC, and the summary report on the conducted quality review are also published on the website of the Ministry of Finance.
- The quality of the work of internal audit will be significantly contributed by the introduced obligation of professional training of certified internal auditors, which

Key results

The Government adopted the Consolidated Annual Report on 19 November 2020, and the statement was submitted to the ministries with recommendations for action, thus fulfilling the indicator that was planned for the

entered into force by the adopted Rulebook on Professional Development of Certified Internal Auditors in Public Sector.

- Draft guidelines for clear reporting of irregularities and dealing with exceptions have been developed.
- The Consolidated Annual Report on the State of the PIFC in the Republic of Serbia has been amended and improved.
- In cooperation with colleagues from France, the Twinning project worked on the improvement of the PIFC, above all through the Pilot exercise on the improvement of managerial accountability.

Attained in 2020

The Twinning Project was completed on 6 June 2020, with the most important activity being the Pilot Exercise dedicated to the improvement of FMC and managerial accountability, thus essentially defining the approach to further development of these areas. Measures for further improvement of internal financial control in the public sector are included in 2020 in the work on the new 2021-2025 Public Financial Management Programme, which will be a strategic document for the PIFC in the coming period together with the new 2021-2030 Public Administration Reform Strategy, which includes strengthening the concept of managerial accountability.

The cycle of reviewing the quality of the FMC system for 2020 at PFBs is in the final phase. Review of the quality of the financial management and control system is performed in the following institutions: the Ministry of Agriculture, Forestry and Water Management - Forest Administration and the Ministry of Construction, Transport and Infrastructure - Directorate for Waterways. In the following period, the development of an internal methodology for reviewing quality, which emerged as a product of a pilot project in cooperation with a twinning partner, will continue. This is the first cycle of reviewing the quality of the FMC system, which the CHU performs independently. The planned number of quality reviews of the FMC system at PFBs has been reduced in line with the constraints and challenges caused by the COVID-19 pandemic.

When it comes to internal audit, the quality of work is reviewed by the CHU, which is within the scope of the newly formed internal unit within the Sector - CHU, the Group for reviewing the internal audit work quality, and involves checking compliance with the requirements for establishing an internal audit unit, audit scope, competence and training of internal auditors, functional and organizational independence of internal audit, internal audit charter and code of ethics, knowledge of internal audit standards, strategic and annual internal audit plans, application of internal audit methodology, internal audit risk management, internal quality control, the need for future trainings and membership in professional associations. Review of the quality of internal audit work for 2020 is in the final stages and is being addressed at 10 PFBs. The planned number of reviews of the quality of IA work has been reduced from 12 to 10 due to difficulties in work caused by the pandemic. The consolidated overview will be published on the MoF website, and the key results will be sublimated in the Consolidated Annual Report on the State of the PIFC for 2020. The Group for reviewing the internal audit work quality has prepared a draft rulebook on external evaluation of internal audit work, and a methodology for the quality control modality is being prepared: by a peer review with the support of GIZ. As a special contribution to improving the quality of IA work, it is significant that 2020 is the first year in which internal auditors began regular reporting to the CHU on professional development from the previous year. In addition,

work has begun on improving the position of internal auditors and in this regard preliminary analyses have been performed.

At the end of the second quarter of 2020, the Guidelines for Irregularity Management were published. The guidelines present to employees of public funds beneficiaries the purpose, roles of persons in the system, obligations of managers regarding the establishment of the system and the development of internal procedures, and an overview of their manifestations was provided. They were published as part of a comprehensive package of guidelines in the field of financial management and control and internal audit, that are tailored to self-learning and ensure the continuity of CHU professional support to managers and employees in public administration. The start of data collection on irregularities management at PFBs is planned for the reporting process for 2020. Also, by adopting a new Rulebook on Common Criteria and Standards for the Establishment, Operation and Reporting of the Financial Management and Control System, its Article 20 prescribes the Statement on Internal Controls signed by the head of the public funds beneficiary confirming the level of compliance of the financial management and control system with regard to international internal control standards. The Statement on internal controls is an integral part of the annual report on the financial management and control system. Public funds beneficiaries are obliged to submit the above statement to the CHU, for 2020, since Article 20, paragraph 1 of this Rulebook applies from 1 January 2021. This Statement also applies to the part of irregularity management.

In cooperation with SIGMA consultants, the analytical approach, content and form of the Consolidated Annual Report on the State of PIFC in the Public Sector in 2019, which was significantly changed and improved in terms of structure, statistics and performed analyses, were taken as a basis for reporting in 2020. The given recommendations are more systemic and less oriented towards CHU. Separate chapters on the perspective of SAI and budget inspection, as part of the OIG, have been prepared, providing an overview of how COSO functions in practice, i.e. external verification of the FMC system, and they are included as a regular part of the report. Emphasis is also placed on monitoring the recommendations of the EC Annual Report on Serbia, identified systemic weaknesses and recommendations for improving the PIFC provided by the CHU, the results of achieving the goals of the PIFC Strategy, while special attention is paid to the results of the review of internal audit and internal control work quality.

In 2020, the report was further improved, primarily through a comprehensive approach to the COSO framework, and it was harmonized with the organization by the principles, while attention was paid to a more profound understanding of internal audit. The self-assessment questionnaire was improved and fully harmonized with the new 2013 COSO framework. Although the prospects of the SAI were excluded from the Consolidated Annual Report for 2019 for technical reasons, due to the delays caused by the pandemic, they are already being prepared for the next report for 2020. The role of the SAI in the introduction of the PIFC system in the RS public sector is extremely important and there is a natural partnership between the CHU and the SAI. In 2020, the SAI performed the following performance audits - Efficiency of establishing internal financial control in ministries, and Efficiency of establishing internal financial control in health care institutions. These reports contain recommendations for improving the work of all auditees, including the CHU, as one of the three pillars of the PIFC.

At the beginning of 2020, the Software for reporting became operational because the most important technical and functional shortcomings were eliminated. The software was included in the reporting system in 2020 and in the following period it is planned to continue its use along with

[The EC Report on Serbia for 2020 assessed Serbia being moderately prepared when it comes to the Chapter 32, with a solid progress made in this reporting period. The Commission's recommendations from 2019 were mostly implemented, particularly through the pilot project on accountability and initiating review of internal control quality](#)

the regular way of collecting reports. In 2020, half of all received reports of the PFBs were submitted electronically.

During 2020, great progress has been made in developing methodological tools. The Manual for Financial Management and Control and the Manual for Internal Audit have been updated, as well as all training materials in the field of FMC and IA. A significant number of guidelines/models from various areas of internal financial control have been prepared, and one video material.

The most important methodological materials are:

1. Guidelines on the Delegation System;¹⁵
2. Guidelines on Management Accountability;¹⁶
3. Risk Management Strategy Model;¹⁷
4. FMC Guidelines for Small Public Funds Beneficiaries;¹⁸
5. Guidelines for Irregularity Management;¹⁹
6. Guidelines for Conducting Internal Audit of Intersectoral Programmes and Projects - "horizontal audit";²⁰
7. Guidelines for Establishing a Joint Internal Audit Unit;²¹
8. Audit tools for European Union IPA funds.²²
9. Model for Internal Evaluation of the Quality of Work of Internal Audit Units²³

¹⁵ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/smernice-o-delegiranju.pdf>

¹⁶ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-o-upravljackoj-odgovornosti.pdf>

¹⁷ <https://www.mfin.gov.rs/wp-content/uploads/2020/02/Модел-Стратегије-управљања-ризицима-ПИФЦ.pdf>

¹⁸ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Смернице-за-мале-КЈС-ПИЦ-PDF-converted.pdf>

¹⁹ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-za-upravljanje-nepravilnostima.pdf>

²⁰ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-za-horizontalne-revizije.pdf>

²¹ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-Zajednicka-revizija.pdf>

²² <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Alati-za-reviziju-IPA-fondova.pdf>

²³ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Model-interne-ocene-kvaliteta-IR.pdf>

Funding of the measure

In addition to regular budget funds, the realization of this goal was supported by a Twinning Project²⁴ which ended in June 2020, SECO/UNDP²⁵ which lasted until the end of 2020, still ongoing projects: RELOF/SECO²⁶, GIZ²⁷ and SIDA/UNDP²⁸.

Key challenges

- The COVID-19 pandemic was the biggest challenge during 2020. It caused delays in the collection of individual reports on the state of the PIFC from the PFBs due to difficult access to documentation because of the state of emergency. In addition, it prevented regular trainings and exams for the certified internal auditor in the public sector.
- Introduction of Irregularity Management and Statements on Internal Controls to be used for the first time in reporting for 2020 - these tools represent a new practice for public sector institutions.
- Frequent institutional changes and fluctuations in the management of public funds beneficiaries and FMC coordinators have reduced potential enhancement in the area of finance management and control.
- Lack of adequate training for the process of reviewing the quality of the FMC system by the CHU, given that the activity is a completely new approach.
- In the area of managerial accountability, a constant challenge is posed by the fact that the regulations governing this area are generally not within the competence of the CHU. The CHU is therefore investing special efforts to ensure successful coordination with institutions and units that are key to creating regulations in this area (MoPALSG, SPP and MoF Budget Department), and actively participates in drafting the following strategic documents aimed at public administration reform.
- The number of internal auditors in the RS public sector is still insufficient for optimal coverage of the PFBs by the internal audit function.

Planned for the coming period

- Further improvements in the implementation of the FMC in PFBs;
- Further improvements in the work of internal audit according to international standards;
- Strengthened monitoring function in the area of PIFC;
- Introduction of a peer review in the area of reviewing the quality of IA work at PFBs;
- Enhancement of the training system in the PIFC area and
- Improving managerial accountability in the administrative culture (link to the Public Administration Reform Strategy).

²⁴Supporting Further Development of Public Internal Financial Control (PIFC), the project is funded by the EU.

²⁵Enhancement of Municipal Audit for Accountability and Efficiency in Public Financial Management with the Swiss State Secretariat for Economic Affairs (SECO) as the donor, while UNDP was a partner in the implementation.

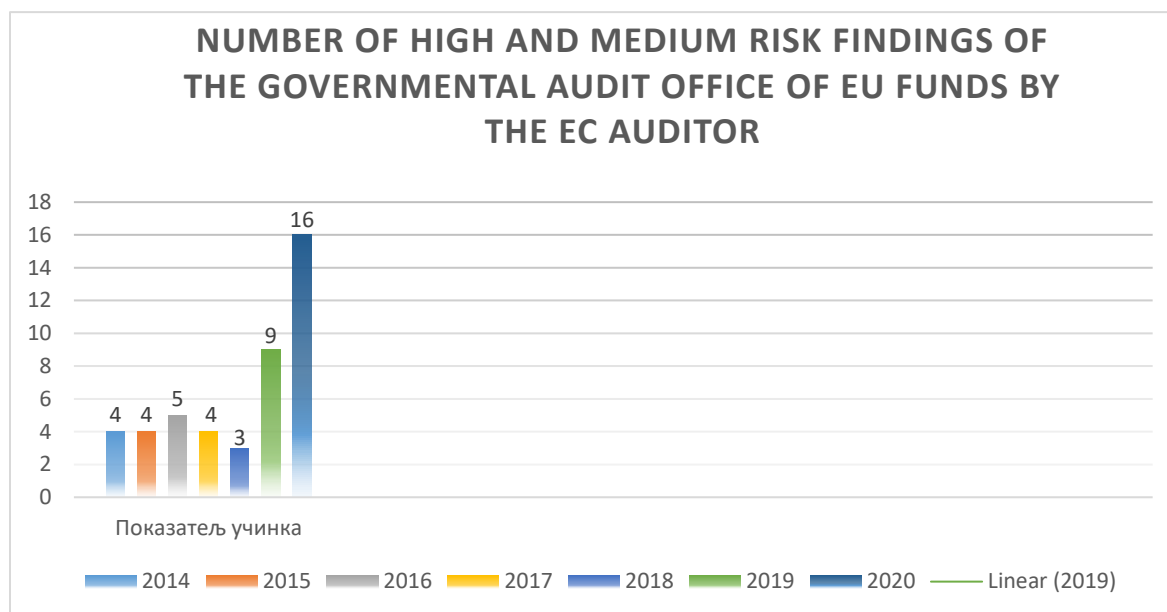
²⁶“RELOF 2 Local Government Finance Reform Program” funded by the Swiss State Secretariat for Economic Affairs (SECO).

²⁷Public Finance Reform - 2030 Agenda, funded by the German and Swiss Development Aid, implemented by GIZ.

²⁸“Accountable Public Finance Management Platform” funded by the Swedish International Development Cooperation Agency (SIDA), while UNDP was a partner in the implementation.

MEASURE - ADDITIONAL STRENGTHENING OF THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF THE GOVERNMENTAL AUDIT OFFICE OF EUROPEAN UNION FUNDS

The measure refers to the adoption of an appropriate legal framework, conducting a functional analysis in order to improve the organizational capacity of the Governmental Audit Office of EU Funds (hereinafter: "Audit Authority").²⁹



Graph 9: Number of high and medium risk findings of the Governmental Audit Office of EU Funds by the EC auditor³⁰³¹

The indicator at the level of the goal "Number of EC audit findings against the number of implemented audit recommendations" indicates an increase in the number of audit findings, from the estimated six to the nine implemented in 2019, and from the estimated 4 to the 16 implemented in 2020. The reasons for this are as follows: beside the frequent changes in the management of the R3 DG NEAR audit sector during the previous 2019 and personnel changes in the *DG NEAR audit-verification team*, which carried out the mentioned engagements, the methodology of *DG NEAR work* in monitoring the implementation of recommendations was changed. These changes even led to deviations from international auditing standards, so that two findings and recommendations were subsequently introduced that were not the result of a previous audit. This approach has resulted in an unexpected increase in the number of audit findings.

²⁹The Office was established in 2011. Link to: <http://www.aa.gov.rs/doc/Uredba%20o%20osnivanju%20kancelarije.pdf>

³⁰Based on the latest available data: DG NEAR Reports Ref. Ares (2019)4519382351808 - 0307/078/2019 and DG AGRI Ref.Ares(2018)1062069 - 26/02/2018

³¹Based on the latest available data: DG NEAR Reports Ref. Ares (2019)4519382351808 - 0307/078/2019 and DG AGRI Ref..Ares(2018)1062069 - 26/02/2018, as well as Ref. Ares(2020)3686029 - 13/07/2020

Key results by the end of 2019

During the reporting period, all three planned activities were conducted in accordance with the PFMRP timeframe, except for the adoption of a legal enactment for the reinstitutionalisation of the Office.

A draft legal framework for the reinstitutionalisation of the Office was prepared in December 2017, but the final phase of adoption was postponed due to a lack of institutional and economic justification.

At the beginning of 2016, national authorities conducted a functional analysis in order to improve the capacity and increase the functionality of the Office within the IPA structure³², in accordance with the Framework Agreement for IPA II, as well as in accordance with the analysis of the scope of work, and they completed it before the deadline set by the PFM Reform Programme (first quarter of 2017). The recommendations of the above-mentioned functional analysis served as the basis for the preparation of legal enactments for the reinstitutionalisation of the Office, and the analysis of the scope of work provided the basis for increasing the planned number of employees in accordance with IPA II regulations. The Governmental Audit Office of EU Funds has implemented a project "Introduction of Software - *AuditDoc* for audit and document management". The aim of the project is to automate, expedite and facilitate the process of planning, conducting and reporting on the audit of the EU funds management system, as well as to complete the system for monitoring the recommendations. A secondary data storage centre has also been established at the prescribed distance.

Attained in 2020

The organizational, technical and administrative capacities of the Audit Authority have been improved in accordance with the requirements of the European Commission, which increases the functionality for conducting audit activities. In accordance with the recommendations of the latest analysis of the workload, it is necessary to urgently hire the missing number of competent civil servants and organize their accelerated training, in order to develop the administrative capacity of the Audit Authority. **Currently, the Audit Authority has 32 employees**, of which 31 are full-time employed and one is part-time employed. There are twelve certified auditors. **The target value of the full capacity of the Audit Authority according to the current needs has been achieved.**

In order to preserve and improve administrative capacity, on 10 April 2019, the Audit Authority adopted a new Rulebook on Internal Organization and Job Classification, which provides

*The European Commission's Report on Serbia for 2020 states "When it comes to financial management, control and audit, the capacities of the existing national systems for indirect management of IPA funds have been improved. The audit authority has been established and is operating. The newly established IPA management and information system is being tested."*¹

³² In January 2016, NAO, the Director of the Governmental Audit Office of EU Funds and NIPAC conducted a functional analysis of the Governmental Audit Office of EU Funds.

for a total of 33 employees, of which 10 jobs are as senior advisor with 15 operatives, 13 of which should be certified auditors.



As part of the strengthening of the Network of Audit Authorities of IPA Beneficiaries, a five-member delegation of the Audit Authority for the EU-Accredited Assistance Programs from Albania was on a study visit to the Governmental Audit Office of EU Funds in Belgrade, from 20 to 24 January 2020. The aim of the visit was to exchange experiences in the field of administrative capacity building, the manner of conducting audits and the practical application of "Auditdoc" software for auditing EU projects and document management. Members of the delegation of the Audit Authority of Albania

had the opportunity to use the software in certain phases of the audit - planning, fieldwork and reporting.

In the period from 27-31 January 2020, an Expert Mission on the preparation and implementation of the Programme for ensuring and improving the quality of internal audit was organized by the Ministry of Agriculture, Forestry and Water Management - Internal Audit Group of the Agrarian Paying Agency, in cooperation with TAIEX, a special Department within the European Commission's Directorate General for Neighbourhood and Enlargement Negotiations³³.

³³In addition to the employees from the Internal Audit Group of the Directorate for Agrarian Payments, the expert mission was also attended by internal auditors from: Central Harmonization Units of the Ministry of Finance; the Ministry of Agriculture, Forestry

The aim of the expert mission was to improve the knowledge of internal auditors in the Agrarian Paying Agency about the preparation and implementation of the Internal Audit Quality Assurance and Improvement Programme (IAS), bearing in mind that the Internal Audit Group did not have sufficient practical experience in preparing and implementing IAS.



The IAS is a developed methodology for ongoing and periodic evaluations, which consists of comprehensive processes, continuous monitoring and testing of internal audit and advisory services, periodic certifications of compliance with the definition of internal audit, code of ethics and standards. This also includes ongoing measurements and analyses of how performance measurements are made, e.g. implementation of the internal audit plan, cycle time frame, accepted recommendations and customer satisfaction. The methodology is in line with International Standards for the Professional Practice of Internal Auditing. An on-line workshop for auditors was held in cooperation with GIZ.

In Belgrade, in order to strengthen the capacity of the Governmental Audit Office of EU Funds, in cooperation with the project Support to the Public Administration Reform, implemented within the German-Serbian development cooperation by the German Corporation for International Cooperation - GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), an online workshop "Support to the negotiation chapter 32-Financial control in strengthening the capacity of

and Water Management; the Ministry of Finance; the Internal Audit Service of the City of Belgrade, as well as seven certified public sector internal auditors of the Governmental Audit Office of EU Funds.

the Governmental Audit Office of EU Funds, regarding the audit of EU structural and investment funds" was held in the period from 14 to 15 May 2020. The aim of the workshop was to exchange the practical experience with the Directorate General for Audit of European Funds in Hungary, in the audit of ESI funds and changes in the draft regulations for the period 2021-2027. The workshop included all employees in the Governmental Audit Office of EU Funds dealing with audits, and interested representatives of the Ministry for European Integration.

At the end of September 2020, the works on the reconstruction and expansion of the business premises of the Governmental Audit Office of EU Funds were completed, financed from the 2020 budget of the Republic of Serbia with the amount of RSD 4,791,557.00 excluding the VAT.

Funding of the measure

For the implementation of this measure, the Audit Authority has so far planned and spent an additional EUR 56,390 from the state budget for hiring new employees, and RSD 5,749,628 (including VAT) (EUR 47,913) for the reconstruction and expansion of business premises, in order to create technical conditions for admission of new staff and development of administrative capacities of the Audit Authority. To further strengthen administrative capacity, the Audit Authority implemented the project "Introduction of Software - *AuditDoc* for Audit and Document Management". Funds in the amount of EUR 220,000, from IPA 2013 unallocated funds, were spent for the project. The European Union Delegation to the Republic of Serbia conducted the tender, and the Audit Authority implemented the project. For maintenance and improvement of the software - *AuditDoc* for auditing and document management, the financial plan of the Audit Authority envisages funds in the amount of RSD 2,900,000.

The Audit Authority participates in the IPA project "Development of the Cohesion Policy Management System", initiated on 12 September 2019. The project was contracted by the EU Delegation to the Republic of Serbia and in the next 3 years it will be implemented by the German Corporation for International Cooperation - GIZ, in a consortium with partners from Romania (Mott MacDonald) and Italy (Archidata and Ismeri Europe). The project aims to improve the capacity of the Republic of Serbia institutions at the national and sub-national level for efficient preparation, implementation, monitoring and evaluation of programmes and projects financed from the EU structural funds and cohesion fund. The Audit Authority participates in the project with its training plan for employee training.

Key challenges

- Postponement of the adoption of the proposed legislative framework for the (re)institutionalization of the Audit Authority. The competent proposer of the legislative framework is the Ministry of European Integration, and the adoption is expected by the end of 2021,
- Lack of adequate staff retention policy, bearing in mind the need to prevent staff outflows, through systemic reforms in human resource management;
- The constant significant fluctuation of trained staff requires the hiring of new ones, as a replacement, and their intensive training.

Planned for the coming period

- Further strengthening of the administrative capacity of the Audit Authority, in order to provide relevant recommendations for the IPA structure to improve the decentralized/indirect

management of EU pre-accession funds, as well as for the implementation of programmes and projects financed from the IPA funds;

- Adoption and implementation of a legislative framework for (re)institutionalization, in line with EC recommendations and provision of a basis for further strengthening the Audit Authority's administrative capacity;
- Preparation of a comprehensive Personnel Retention Policy within the IPA structure, in accordance with the measures to be adopted at the national level for state administration authorities and Government services, which, in accordance with their scope, perform state administration activities related to the management of the European Union pre-accession funds;
- Preparation of three-year audit strategies in accordance with Annex E, the Law on Ratification of the Framework Agreement between the Republic of Serbia and the European Commission on the Rules for Implementing European Union Financial Assistance to the Republic of Serbia, within the Instrument for Pre-Accession Assistance (IPA II) and their annual update.
- Preparation of the annual audit plan, in accordance with the Law on Ratification of the Framework Agreement between the Government of the Republic of Serbia and the Commission of the European Communities on cooperation rules concerning the European Community Financial Assistance to the Republic of Serbia, within the framework of assistance performed according to the rules of the Instrument for Pre-Accession Assistance (IPA) and its fulfilment;
- Further strengthening of the administrative capacities of the Audit Authority intended for assuming new obligations, arising from:
 - Chapter 22 - Regional Development and
 - Chapter 11 - Rural development - certification body.

MEASURE - IMPROVEMENT OF IRREGULARITY MANAGEMENT, COORDINATION AND COOPERATION ON COMBATING FRAUD AND PROTECTION OF FINANCIAL INTERESTS OF THE EUROPEAN UNION

Key results by the end of 2019

- The Budget System Law was amended in December 2016 and in December 2017, providing a broader scope of accountabilities and the necessary legal basis for the protection of the European Union financial interests, and thus the Republic of Serbia for the Ministry of Finance (Department for Combating Irregularities and Fraud in Managing European Union Funds (hereinafter: Anti-Fraud Coordination Service - "AFCOS"));
- Strategy for combating irregularities and fraud in managing European Union funds in the Republic of Serbia for the period 2017-2020 and the Action Plan for its implementation were adopted at the Government session on 26 October 2017 and published in the "Official Gazette of the RS", no. 98 of 3 November 2017;
- From January 2017, AFCOS can receive electronically, through the official website of the Ministry of Finance, reports of irregularities in managing European Union funds and requests for control, which enables faster dealing with them;
- Amendments to the Budget System Law of December 2018, added to Article 2 "Definitions", under item 47a, a definition of administrative reviews which reads: "47a) Administrative

reviews shall mean actions of reviews, official controls, supervision and other measures for the purpose of determining the nature of irregularities in order to protect the financial interests of the European Union, and thus the financial interests of the Republic";

- By the Rulebook on Internal Organization and Job Classification in the Ministry of Finance of 19 December 2018, the Department for Combating Irregularities and Fraud in Managing European Union Funds was established as an organizational unit outside the department, secretariat and Office, under the direct authority of the Minister of Finance. It has three groups: 1. Data Analysis and Risk Management Group, 2. Group for dealing with reported irregularities and suspicions of fraud and 3. Administrative group, with ten classified jobs. The reorganization was carried out in accordance with the recommendations of the *SIGMA* analysis "Rationalization of the work of the budget inspection and the Department for Combating Irregularities and Fraud in Managing European Union Funds".
- In September 2019, the Directive on the work and manner of action of the Department was issued. On 5 September 2019, the Minister of Finance issued a Directive on the work and manner of action of the Department for Combating Irregularities and Fraud in Managing European Union Funds regarding reported and otherwise recorded irregularities and suspicions of fraud in managing European Union funds in the Republic of Serbia.

In order to implement the risk management policy in the context of prevention of irregularities and fraud with European Union funds, AFCOS, with the support of an expert hired by GIZ, developed:

- risk analysis of all bodies involved in the management of EU funds in order to define the area of risk of irregularities and fraud,
- proposal of risk management measures, and
- Methodological Guide for risk management related to the occurrence of irregularities and fraud in managing European Union funds (hereinafter: "Methodological Guide"), including supporting annexes, thus fulfilling the indicator that measures progress in this area.

After drafting the Methodological Guide, on 7 November 2019, the Minister of Finance issued a Decision on the Methodological Guide for risk management in connection with the occurrence of irregularities and fraud in managing European Union funds. The mentioned Decision and the Methodological Guide with supporting annexes were published on the presentation of the Ministry of Finance.

Attained in 2020

At the end of 2020, the Ministry of Finance initiated the establishment of the new AFCOS Network, bearing in mind the personnel changes due to the establishment of the Government in October 2020, as well as the need to involve the State Secretary of the Ministry of Finance (National Authorizing Officer) in the protection of the EU financial interests. One of the most important tasks of the new Network will be the development of a Strategy for combating fraud and management of irregularities in handling European Union funds and the Action Plan for its implementation.

During 2020, the good practice of cooperation and exchange of information with the competent institutions of the Republic of Serbia and the European Anti-Fraud Office (OLAF) continued.

The situation with the pandemic, which lasted almost throughout 2020, significantly reduced the intensity of cooperation with OLAF, although with exceptional efforts on both sides the reports of suspected irregularities and fraud were verified, information was exchanged and cooperation was established with the competent Prosecutor's Offices in the territory of the Republic of Serbia.

During 2020, despite the difficult working conditions, eight (8) administrative verifications of reports of irregularities and suspected fraud were performed and completed. Out of the total number of performed administrative reviews, four (4) cases were forwarded to the Prosecutor's Office for further proceedings.

On 27 October 2020, a Webex meeting of the Subcommittee for Economic and Financial Affairs and Statistics took place, at which representatives of the European Commission confirmed that they were satisfied with the level of cooperation concerning the protection of EU financial interests, under the auspices of AFCOS.

In the course of 2020, the process of preparation for the drafting of a new policy document - Strategy for Combating Fraud and Management of Irregularities in Handling European Union Funds and the Action Plan for its implementation, was initiated.

As Article 31 of the Planning System Law of the Republic of Serbia stipulates that policy documents are to be prepared in accordance with the results of *ex-post* analysis of effects and *ex-ante* analysis of the effects of valid policy documents, AFCOS, in accordance with the instructions of the Republic Secretariat for Public Policies, conducted activities related to the stated analyses, in order to review and assess the positive and negative effects of the measures from the Strategy and to determine priorities in action through the new strategic document.

In order to conduct an *ex-post* analysis of the effects, a questionnaire with instructions was prepared and submitted to the members of the Network in order to answer the questions. The questionnaire was divided into four areas (relevance/significance, effectiveness, efficiency and sustainability) and included questions related to the current situation and implementation of activities from the Strategy.

Due to the situation caused by the pandemic, the adoption of a new policy document has been postponed to the end of 2021.

In 2020, the administrative capacities of AFCOS were further strengthened, whereby a public competition was conducted and after its completion two additional (2) operatives were hired, so that the total number of employees in the Department for Combating Irregularities and Fraud in Handling EU Funds at the end of the year was seven (7).

Key results

- *The establishment of the new AFCOS Network was initiated,*
- *The process of drafting a new policy document in the field of protection of EU funds was initiated,*
- *The administrative capacities of the Department for Combating Irregularities and Fraud in Handling EU Funds have been strengthened.*

Funding of the measure

The measure was funded with the support of the project "Public Finance Reform - 2030 Agenda" implemented by the German Corporation for International Cooperation GIZ, and from the budget funds.

Key challenges

- The preparedness of the institutions involved in the process of drafting policy documents to respond to the challenges in the short term, and for the annexes to reflect the true state of plans in the fight against fraud and management of irregularities in the use of EU funds.
- Involvement of civil society organizations in the process of drafting policy documents.
- Finding interested international community organizations that are ready to financially support capacity building of employees in state authorities in charge of detecting, prosecuting and sanctioning perpetrators of crimes with elements of misuse of EU funds and conducting education at all levels at institutions involved in protecting EU financial interests, as well as raising awareness of the need to report irregularities, both among employees in the system of managing EU funds, and among users of these funds and citizens.

Planned for the coming period

It is planned to develop a Strategy for Combating Fraud and Management of Irregularities in Handling European Union Funds and the Action Plan for its implementation.

Previously performed *ex-post* analysis indicates the reason and need to continue strategic action in the field of protection of EU financial interests and further development of this area as an "integral part of the EU integration process". At the same time, the collected information indicates the need to improve the process of monitoring the implementation through regular analysis of problems and proactive action to eliminate them, as well as the fact that the results of implementation in the coming period should be more actively promoted to the public and stakeholders.

The new Strategy needs to strengthen the approach to monitoring and reporting and envisage a one-year format of the Action Plan that is more suitable for more frequent updating of activities and adjustment to the identified problems during implementation. This modality allows for flexibility in answering the questions that arise during the implementation of the strategic document, which could not have been foreseen at the time of its adoption.

The part of the *ex-post* analysis questionnaire related to the proposals of the members of the Network for taking measures in the future lists the measures and activities that can be grouped into the following categories, and which will be taken into account when drafting a new policy document:

Defining the legal framework

- continuing the harmonization process **of the** RS regulations with valid EU legislation,
- legally regulating mechanisms for the recovery of irregularly spent EU funds to the budget of the Republic of Serbia.

Capacity building (new employment, reassignment of existing staff, education)

- strengthening the capacity of employees in state authorities in charge of detecting, prosecuting and sanctioning perpetrators of criminal acts with elements of misuse of EU funds; and
- conducting education at all levels in institutions involved in the process of protection of EU financial interests.

Informing and raising awareness

- raising awareness of the need to report irregularities, both among employees in the system for managing EU funds, and among users of these funds and citizens.

Improving the implementation of strategic activities

- setting realistic deadlines for the implementation of activities from the new strategy.

Coordination, additional analyses and discussions to identify development needs

- establishing links with other public policy documents; and
- identifying, in cooperation with representatives of repressive bodies (MoI and prosecutor's offices) their specific needs and formulating measures to meet those needs.

MEASURE - DEVELOPED MECHANISM AND STRENGTHENED CAPACITIES FOR RECOVERY OF FUNDS IN ORDER TO PROTECT EU FINANCIAL INTERESTS

Attained in 2019:

- In 2019, the Department for Handling EU Funds of the Ministry of Finance issued 15 validated Management Statements, which confirms that the indirect management system is functioning properly and legally.
- The legal framework, i.e. the Regulation on the Management of the European Union Pre-Accession Assistance Programmes within component I of the Instrument for Pre-Accession Assistance (IPA) - Transition Assistance and Institution Building for the period 2007-2013 and the Regulation on the Management of the European Union Pre-Accession Assistance Programmes within the Instrument for Pre-Accession Assistance (IPA II) - 2014-2020, was updated during 2019.
- A new Rulebook on Internal Organisation and Job Classification in the Ministry of Finance was adopted in May 2019, containing changes within the Department for Contracting and Financing and the Department for EU Funds Management.
- Within the Department for Contracting and Financing, an Internal Control Group has been systematized, with primary task to deal with legal issues, issues of irregularities in implementation at the level of the operating structure.
- Within the Department for EU Funds Management, the unit for support to the National Authorizing Officer is divided into the Section for Supervision and Monitoring of Functioning of TAIB, NAP and CBC Funds Management System and the Group for Supervision and Monitoring of Functioning of IPARD Funds Management System.
- Procedures for decentralized, i.e. indirect management of funds were improved and entered into force on 8 July 2019. The new version of the procedures responds to the findings of the auditors of the European Commission and the Audit Authority and formalizes the best practices established in practice.

Attained in 2020:

- In 2020, the Department for EU Funds Management issued 14 validated Management Statements, which confirms that the indirect management system is functioning properly and legally.
- The legal framework, consisting essentially of the Regulation on the Management of the European Union Pre-Accession Assistance Programmes within component I of the Instrument for Pre-Accession Assistance (IPA) - Transition Assistance and Institution Building for the period 2007-2013 and the Regulation on the Management of the European Union Pre-Accession Assistance Programmes within the Instrument for Pre-Accession Assistance (IPA II) - 2014-2020, updated during 2019, remained unchanged, and the changes made during 2020 in the new circumstances of the pandemic provided stability of the execution of work processes.
- Within the Department for Contracting and Financing, an Internal Control Group began functioning, with primary task, in accordance with the systematization, to deal with legal issues, issues of irregularities in implementation at the level of the operating structure.
- Within the Department for EU Funds Management, the division made within the unit for support to the National Authorizing Officer in 2019 and by which this unit was divided into the Section for Supervision and Monitoring of Functioning of TAIB, NAP and CBC Funds Management System and the Group for Supervision and Monitoring of Functioning of IPARD Funds Management System, proved to be a solution that brought greater focus and efficiency to its operations.
- Programme procedures for the implementation of funds in indirect management of cross-border cooperation programmes were improved and entered into force for the Serbia-Montenegro cross-border cooperation program on 29 May 2020, while for the Serbia-Bosnia and Herzegovina cross-border cooperation programme entered into force on 16 June 2020. The new version of the programme procedures has improved the work processes in accordance with the lessons learned from the previous implementation, has formalized the best practices established through the operations and has responded to the findings of the auditor of the Audit Authority.

During 2020, two meetings of the Network of Officers for Irregularities were held, both via an electronic meeting platform. Work continued on raising the awareness of the responsibility of each employee in dealing with irregularities, exchanging experiences and better participation of all officers for irregularities who presented their questions and opened discussions on possible risks that they identified. Participants were provided with basic information on the forthcoming improvement of the procedure for irregularities. Moreover, during 2020, the National Academy for Public Administration (NAPA) organized a training session on irregularities, which was attended by employees of state institutions, employees of local governments and regional development agencies, and it will continue with the same practice in 2021.

In the first quarter of 2020, the Department for Control of the European Union Pre-Accession Assistance Management System performed a risk analysis for on-the-spot controls and 10 field visits were planned. During the year, 9 out of 10 planned visits were made for the TAIB, NAP and CBC programmes. One visit was postponed for the first quarter of 2021, and it related to the topic of irregularities within the Contracting body. Given that during 2020 significant work was carried out to improve the procedures for irregularities, this field visit will be carried out after the



adoption of updated procedures. For the IPARD programme 5 field visits were performed. Although the situation with the pandemic greatly affected the conduct of field visits due to restrictions on movement and gatherings, the Department for Control of the European Union Pre-Accession Assistance Management System made efforts to fulfil the set plan and had significant success with it.

The focus of the management and control system on irregularities, which intensified in 2019 and such trend continued in 2020, produces results in the form of more efficient detection of irregularities, processing of irregularity signals, regular reporting of cases to the European Commission and relevant state institutions and recovery of improperly spent funds by the beneficiaries with whom the grant agreements were terminated in 2019 and the amounts for the recovery of funds were determined. In some of the cases where fraud is suspected, the information was sent to the State Public Prosecutor's Office for further action.

During the past year, two cases of irregularities were reported to the European Commission, and one case reported in 2019 was updated. This continuity in monitoring and reporting can be attributed to the IPA bodies in the Ministry of Finance (managing structure and the Contracting Body), the NAO and AFCOS Support Office, which worked closely together in carrying out administrative and field controls, preparing reports and cooperating with other relevant bodies and institutions.

Funding of the measure

The measure is financed by regular funds from the national budget. The amount that is necessary for employees was earmarked in the budget for 2020, and it is also earmarked for 2021.

The work on the preparation of the mechanism for the recovery of irregularly spent funds, carried out during 2019, led to the conclusion that it is necessary to do a more comprehensive analysis of the system and the need for proposals for its improvement. In this case, like in 2019, the financing was provided from the German development aid project "Public Finance Reform - 2030 Agenda", implemented by GIZ. *Funding from the IPA project DIS IV* will be used to continue some of the activities, and funding opportunities with the support from *TAIEX* and other sources will also be explored.

Key challenges

- Due to insufficient number and lack of training of employees, as a direct consequence of the lack of retention policy, there is a risk of reduced quality and delays in all relevant business processes. In that sense, it is important to note that the NAO initiated the amendment of the regulation, which is planned for the second quarter of 2021.
- Delays caused by the COVID-19 virus epidemic will pose a significant challenge during 2021. It is not yet possible to assess the consequences of these delays with complete clarity, so IPA bodies and the management structure will monitor developments in order to respond in a timely manner.

Planned for the coming period

- Increasing the capacity of structures for management and protection of national and EU funds, which includes two activities: analysis and proposal for system improvement and training and study visits, if the health situation allows, for relevant staff.

- Further enhancement of procedures for managing irregularities, including a mechanism for recovering EU funds: through possible inclusion in the national institutional and legal framework.
- In 2021, meetings of the network of officers for irregularities will be organized in accordance with the procedures. Moreover, the annual training programme for 2021, covering topics relevant to IPA funds, continues to offer training on the management of irregularities within the IPA system.

MEASURE - STRENGTHENED INSTITUTIONAL CAPACITIES OF THE BUDGET INSPECTION FOR THE PROTECTION OF FINANCIAL INTERESTS OF THE REPUBLIC OF SERBIA

Key results by the end of 2019

- In November 2019, the Rulebook on the Manner and Procedure of Budget Inspection in Performing Supervision over the Implementation of the Law on Deadlines for Settlement of Financial Obligations in Commercial Transactions ("Official Gazette of the RS", no. 78/2019) was adopted. This Rulebook prescribes the manner and procedure of supervising the implementation of the said Law in cases when transactions are performed between the public sector and economic entities in which public sector entities are debtors, and among public sector entities. It also prescribes the manner and procedure of retrieving data on outstanding liabilities of public companies from the information system of the Treasury Administration.
- In December 2019, the Methodology for the Budget Inspection Operations was adopted for proper and uniform operation of the Budget Inspection of the Ministry of Finance, the Service for Budget Inspection of the Autonomous Province and the Service for Budget Inspection of Local Self-Government Units. The Methodology regulates in more detail the goals, scope, content, manner and conditions of performing budget inspection activities, rights and obligations of the subject of inspection control, tasks performed and actions in the proceedings executed by budget inspectors, as authorized officials of budget inspection, and measures taken.
- In June 2019, a Training Programme for budget inspectors was developed, with the aim to strengthen the administrative capacity of employees in the Budget Inspection Sector in order to respond to work requirements, in accordance with the supporting legal framework.
- During 2019, all employees attended training sessions. The training programme had two parts: The first part - professional knowledge necessary for performing work tasks and the second part - acquiring additional skills necessary for better job performance. Training sessions dedicated to employees are continuous.
- During 2019, the Budget Inspection performed inspection control at 43 entities and thus achieved a 68 percent increase in the number of conducted inspection controls compared to the previous year, significantly exceeding the set growth indicator of 5 percent.

Attained in 2020

During the year the Budget Inspection received a total of 184 petitions, i.e. reports from legal entities, natural persons, and competent institutions on illegalities and irregularities in the operations of public funds beneficiaries. The risk analysis and assessment of all petitions were performed and accordingly responses were prepared for the petitioners, as well as the Work Plan for 2021.

Key results

The uniform functional software solution eInspektor, as a system for the exchange of information on the course and outcome of procedures initiated by the inspector, is continuously being improved and it enables the management of documents, cases and processes in the inspection procedure.

A proposal for the Strategic Plan of the Budget Inspection of the Ministry of Finance for the period 2021-2026 has been made, as well as the accompanying Action Plan which defines in detail all measures and activities to increase legality in the area of material and financial operations and purposeful and legal use of funds of budget beneficiaries, thus achieving a long - term goal in the area of budget inspection. Moreover, the expected result of increasing the number of inspections and their efficiency and effectiveness has a positive effect on the budget of the Republic of Serbia.

By achieving the general long-term goal set by the Strategic Plan, the Budget Inspection of the Ministry of Finance is included in the system of reform measures in the area of financial control of public funds, by establishing budgetary discipline and greater compliance with all regulations in the area of material and financial operations, and purposeful and legal use of funds, or public funds by budget beneficiaries.

The Budget Inspection has made five special methodological instructions, regulating in detail the procedure for inspection control, by areas within the purview of the budget inspection, with the aim of enhancing the quality of work, and professional capacities of budget inspectors. Improvement of the quality and efficiency of budget inspectors provides legal certainty and improves the overall performance with a positive effect on the state budget.

The implementation of the Three-Year Action Plan for the recruitment of new inspectors for the period 2019-2021 was realized by increasing the number of the newly employed by 9 employees, of which 8 are inspectors.

During 2020, the budget inspection performed inspection control at 34 entities subject to control, out of which 23 planned and 11 unplanned controls were performed. A total of 27 controls were completed, 22 planned and 5 unplanned, while the implementation of 7 controls will continue in 2021.

Funding of the measure

No funds were used for the implementation of the mentioned activities of the Department for Budget Inspection. Strategic Plan of the Budget Inspection of the Ministry of Finance for the period 2021-2026, as well as professional and methodological instructions on how to perform budget inspection control were funded with the support of the German Corporation for International Cooperation - GIZ.

Employee trainings were organized by the National Academy for Public Administration and the German Corporation for International Cooperation - GIZ.

- Five special methodological instructions, regulating in detail the procedure for performing inspection control, by areas within the purview of the budget inspection, with the aim of enhancing the quality of work, and professional capacities of budget inspectors

Proposal of the Strategic Plan of Budget Inspection for the period 2021-2026

Implementation of the Action Plan for the recruitment of budget inspectors

Key challenges

Improving budget discipline and increasing accountability in the management of budget or public funds aims to reduce the average number of identified illegalities and irregularities per control and increase the number of public funds beneficiaries without identified illegalities and irregularities in their business operations. It would result in a reduction in the number of motions to instigate misdemeanour proceedings due to violation of the statutory provisions.

Increasing the efficiency and effectiveness of inspections should contribute to increasing the total number of executed inspections, as well as increasing the number of actions upon received petitions by legal entities, natural persons and competent institutions.

Moreover, the scope of inspection controls, according to the type of public funds beneficiaries and the degree of identified risk to the budget of the Republic of Serbia, should be significantly increased.

In the coming period, the goal is to regulate in detail the proceeding of the Budget Inspection by the Budget System Law.

Planned for the coming period

The plan is to continuously implement a number of regulatory measures through the initiative to amend certain provisions of the Budget System Law in order to further regulate the budget inspection proceedings, as well as to draft the Law on Budget Inspection, as a special law. It is also planned to prepare regulations and general enactments for harmonization with the Budget System Law, as well as to develop special professional and methodological instructions for performing control by the areas subject to control, in order to establish a legal basis for uniform performance of tasks within the budget inspection competence.

It is planned to adopt a new Rulebook on Special Elements, i.e. risk assessment criteria and special elements of the inspection control activity programme in the area of budget inspection in order to improve the risk management process and better select control to be subjected to the Budget Inspection Work Plan.

Moreover, it is planned to continue recruiting budget inspectors and other officials in operative positions.

During 2021, the plan is to conduct training sessions for budget inspectors in the form of specific trainings. Having in mind further development of the Budget Inspection capacity, the enhancement of the knowledge and skills of the employees through trainings and workshops enables the Budget Inspection to overcome everyday challenges more easily.

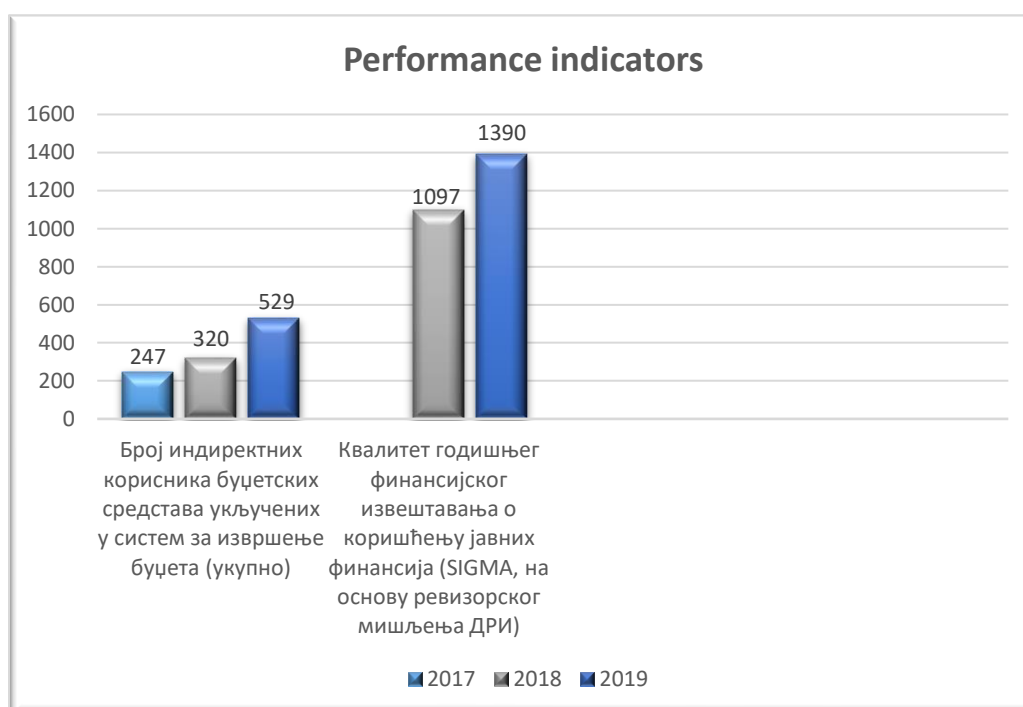
PILLAR IV - ACCOUNTING, MONITORING AND FINANCIAL REPORTING

Objective level indicator	Initial value	2019	2020
Share of public sector accountants involved in the certification programme	8 percent	38 percent	69 percent

MEASURE - IMPROVING THE COVERAGE AND QUALITY OF BUDGET EXECUTION REPORTING

Key results by the end of 2019

- The coverage and quality of budget execution reporting and fiscal reports were improved in several phases. The execution of the budget of the Republic of Serbia is performed through the information system of the Treasury Administration. The budget funds beneficiaries are connected to the system and manage both financial and operational processes in line with their competence, through logistic support of the Treasury Administration.



Graph 10: Number of indirect budget funds beneficiaries included in the budget execution system (total) and Quality of annual financial reporting on the use of public funds (SIGMA, based on SAI audit opinion)

- The information system of the Treasury Administration has been continuously improved through upgrading and enhancing its functionality. Production of the new budget execution system began

on 1 January 2018. A secondary data storage centre has also been established, with the support of EU pre-accession funds (IPA 2013).

- Monitoring and reporting on arrears was enhanced by an additional extension of the *RINO* system to include liabilities of “public sector” to the “public sector” (as of 1 January 2016).
- The Law on Amendments to the Law on Deadlines for Settlement of Financial Obligations in Commercial Transactions ("Official Gazette of the RS", No. 113/17), as of 1 March 2018, prescribes, among other things, the obligation to register invoices and other payment requests, issued by creditors in commercial transactions between the public sector and economic entities, i.e. among public sector entities, in which public sector entities are debtors. In this regard, the Ministry of Finance - Treasury Administration has established a Central Invoice Registry (CRF) as a database for registering subject invoices and other payment requests.
- A new Rulebook on the Manner and Procedure of Supervising the Implementation of the Law on Deadlines for Settlement of Financial Obligations in Commercial Transactions between the public sector and economic entities where public sector entities are debtors and among the public sector entities ("Official Gazette of RS", No. 16/2018), was adopted. It also prescribes the manner and procedure of data retrieval on assumed obligations of public sector entities, for the purpose of performing that supervision, as well as the manner and procedure of retrieving data on settled and unsettled obligations submitted by public sector entities through the information system of the Treasury Administration.
- The Rulebook on the Manner and Procedure for Registration of Invoices, or Other Payment Requests, and the Manner of Keeping and Content of the Central Register of Invoices ("Official Gazette of the RS", no. 7/2018, 59/2018 and 8/2019), prescribing in more detail the manner and procedure for registration of invoices, or other payment requests, issued by creditors in commercial transactions between economic entities and the public sector, or among public sector entities, where public sector entities are debtors and the manner of keeping and content of the central register of invoices established and kept by the Ministry of Finance - Treasury Administration.

Attained in 2020

In September 2020, the procurement of the new Common Information System for Budget Execution Planning and Financial Reporting (SPIRI) was completed, which will replace ISIB in the future.

During 2020, the Treasury Administration implemented an Information System for Financial Statement Filing (ISPF), which in 2021 enabled all budget funds beneficiaries to submit financial statements electronically and which aims to improve the process of data collection, control and consolidation at all levels of authorities.

The Rulebook on Amendments to the Rulebook on the Manner of Preparation, Compilation and Submission of Financial Statements of Budget Funds Beneficiaries, Beneficiaries of Funds of Mandatory Social Insurance Organizations and Budget Reserves ("Official Gazette of the RS", no. 151/20) was adopted, prescribing the submission of financial statements to the Treasury Administration in electronic form.

Funding of the measure

The activities are financed from the budget of the Republic of Serbia and with the support of the IMF and the World Bank.

Key challenges

The biggest challenges for the implementation of this measure were:

- Administrative and technical capacities of indirect budget beneficiaries that are connected to the budget execution system.

Planned for the coming period

The measure has been fully implemented. A continuous upgrade of the results achieved in the previous period is forthcoming.

MEASURE - ENHANCEMENT OF EXISTING CAPACITIES OF THE ACCOUNTING SYSTEM IN THE PUBLIC SECTOR

Key results by 2019

The analysis of the incompliance of the accounting practices with *IPSAS* was conducted with the IMF technical support. A new draft roadmap for the adoption of *IPSAS* in the public sector has been prepared in line with additional analyses and assessments with the IMF technical support.

The "pro forma" financial statements for the period from 2015 to 2018 were prepared in accordance with *IPSAS* for the cash basis for the central level of government. A comparative analysis was made with the countries in the region that have already switched to accrual-based accounting.

The process of continuous training in order to develop accounting capacities in the public sector has continued.

Attained in 2020

- The enhancement of budget accounting reform is underway. A new long-term goal of establishing accrual-based accounting by 2030 was defined.
- Comparative analysis with the countries in the region that have already switched to accrual-based accounting was improved.
- Activities were carried out to adjust the training "Improvement of accounting in the public sector" to the new conditions of the National Academy for Public Administration (NAPA), which concerned organizing a *Webinar* by using the *Webex* platform.
- A draft *Cost benefit* analysis was made regarding the gradual transition to accrual-based accounting in the Republic of Serbia, based on the available literature.
- The Law on the Final Account of the RS Budget for 2019 was adopted by the National Parliament on 11 December 2020.

Funding of the measure

The activities were realized by using funds from the budget of the Republic of Serbia.

Key challenges

- Limited knowledge of *IPSAS* in the Republic of Serbia may be an obstacle to compliance with these standards. A potential long-term challenge is the capacity of employees to master and apply the new standards. The lack of certified professional staff can be an obstacle to the enhancement of accounting in the Republic of Serbia. Therefore, certifications, continuous training and improvement of the skill levels of state accountants are needed.
- Lack of capacity in the overall public sector accounting system clearly indicates that it is insufficient and needs to be strengthened.
- Translation of *IPSAS* - the standards were translated by the Association of Accountants and Auditors of Serbia. The translation needs to be fully harmonized in order to be ready for official adoption and publication.
- The Ministry of Finance, as the entity responsible for the implementation of accounting reform in the public sector, should strengthen its own capacities and resources, both in the MoF and in the Treasury Administration. Capacities and resources need to be strengthened among public funds beneficiaries, so that the reform can be successfully implemented.
- International experience shows that public sector accounting reform is an ambitious goal that is long-term one and requires significant financial resources. The reform requires gradual and long-term implementation, thus setting the foundation for an adequate baseline.
- In order to ensure the proper follow-up of the accounting reform and for the results of that reform to be adequate, it is necessary to:
 - Strengthening the cash-based accounting system in accordance with *IPSAS*, as a starting point;
 - Defining the conceptual accounting framework on the basis of which appropriate regulations will be developed at the very beginning;
 - *IPSAS* framework is the only available, theoretical framework in defining the conceptual accounting framework. The conceptual accounting framework is within the competence of the Ministry of Finance, and the task/role of the Treasury Administration - Sector for Budget Accounting and Reporting, i.e. the Group for Methodology of Application of International Public Sector Accounting Standards can be understood as an expert body that should present to the decision makers (Ministry of Finance) reasoned ideas and alternatives in the reform process. It is necessary to point out, precisely by the analysis, the needs for resources, explain the risks and problems in the process of harmonization of the existing situation and capacity, but also the advantages, as well as the need for additional analyses.

Planned for the coming period

With its accountable operations, professional capacities and innovative information solutions, the Treasury Administration provides a modern system of public finances, which improves the efficiency and transparency in the disposal of funds belonging to the budget of the Republic of Serbia, local government budget and social insurance funds.

The Treasury Administration will continue to improve the public finance management system in line with new requirements and standards. In addition to the capacity of the Treasury Administration, it is necessary for the budget funds beneficiaries to have adequate capacities in order to be able to apply the new standards.



- Public Finance Management Reform requires continuous improvement in the area of accounting and financial reporting. The Common Information System for Budget Execution Planning and Budget Accounting and Reporting of the Republic of Serbia - SPIRI will further improve this area.
- The introduction of accrual-based accounting is a very expensive and time-consuming reform that needs to be further developed, and in this regard, in the coming period, it is necessary to develop a plan to improve accounting in the public sector.
- Developing a proposal for the establishment of the Commission for Application of International Public Sector Accounting Standards.
- Performing necessary activities in order to conclude the Agreement for translation and implementation of IPSAS with the Association of Accountants and Auditors of Serbia (member of IFAC - International Federation of Accountants).
- Organising trainings in order to improve accounting capacities in the public sector.
- Planning the process of admittance to an internationally recognized training and certification programme would be a desirable step towards sustainable capacity building.

PILLAR V - EXTERNAL OVERSIGHT OVER PUBLIC FINANCES

Objective level indicator	Initial value	2019	2020
Assessment of the implemented audit recommendations given by the SAI, which were acted upon by the audited entities	73 percent	74 percent	75 percent

MEASURE - IMPROVING THE SCOPE AND QUALITY OF EXTERNAL AUDITS

Key results in the previous period

- Manual for Quality Assurance and Quality Control was adopted (Policies and Procedures for quality assurance and control, as a result of twinning light project "Audit Quality Control in the State Audit Institution" from IPA2013);
- Methodological rules and guidelines for IT audit was adopted;
- For the first time since the existence of the SAI, the Consolidated Report of the Republic of Serbia for 2018 was audited;
- The number of annually conducted performance audits significantly increased (six times), starting with the Audit Plan for 2019;
- Systematic monitoring of the implementation of recommendations was introduced.

Attained in 2020

Activity 5.1.1. Strengthening external audit through continuous improvement of audit procedures and human resource management

During 2019 and 2020, activities that strengthen external oversight of public finances continued.

State Audit Institution, starting, above all, from the SAI Strategic Plan for the period 2019-2023,³⁴ focused its activities on further improving the audit process, human resource management and strengthening the influence of the SAI. During 2019 and 2020, the SAI made significant efforts to provide high-quality audits that positively impact the functioning of the public sector.

Activities within the Public Finance Management Reform Programme are in line with the SAI Strategic Plan. In accordance with the Action Plan for the implementation of the SAI Strategic Plan for the period 2019 - 2023, within Goal 1 of the Strategic Plan, operational audits conducted in 2020 covered 10 objectives compared to the planned 7 objectives. Within Goal 2, operational audits conducted in 2020 covered 5 objectives, as planned by the said Action Plan. Thus, SAI fully achieved the goals from the Strategic Plan for 2020.

In 2020, SAI produced 137 reports on audit of financial statements, 74 reports on compliance audit, 13 reports on audit of financial statements and compliance, 13 reports on performance audit, and 17 reports on audit of response reports, which makes total of **254 audit reports**. The Consolidated Report of the Republic of Serbia for 2019 was also audited. The preparation of the Activity Report for 2020 is in progress.

In October 2020, SAI published the **Register of Recommendations** for 2019 on its website³⁵. In audits conducted in 2019, SAI made **1,970 recommendations**. Most recommendations were made in audits of financial statements - 1,221, followed by compliance audits - 420, in performance audits - 229 recommendations, and in combined financial and compliance audits 100 recommendations were made.

Of a total of 1,970 recommendations given to the auditees based on audits conducted in 2019, 971 recommendations were "priority one" that must be implemented within 90 days, 834 were "priority two" that must be implemented within a year, and 165 recommendations were "priority three", which require up to three years to be implemented.

³⁴ Strategic Plan of the State Audit Institution,

<https://www.dri.rs/%D0%B4%D0%BE%D0%BA%D1%83%D0%BC%D0%B5%D0%BD%D1%82%D0%B8/%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D1%88%D0%BA%D0%B8-%D0%BF%D0%BB%D0%B0%D0%BD.42.html>

³⁵ <https://www.dri.rs/ревизије/регистар-преорука/регистар-преорука.489.html>

The percent of the compliance with the priority one recommendations is 87.53 percent, and we estimate that the overall compliance with recommendations is 75 percent.

The publication of recommendations enables all stakeholders to monitor the status of each recommendation given in each type of audit, to all auditees, implying affirmation of those entities implementing the recommendations and encouragement to other entities to improve the compliance with the SAI recommendations. The publication of the Register of Recommendations is an additional step towards increasing the transparency and financial discipline of public sector institutions, as well as accountability in spending public funds.

Since 2019, SAI has also published Response Reports of its auditees on its website³⁶, as well as Post-Audit Reports³⁷ from which it is evident which auditees have eliminated irregularities or ineffectiveness, and which have not done so. All stakeholders have the opportunity to monitor how the auditee behaves, whether it is responsible in terms of eliminating irregularities and ineffectiveness, and how the auditor assesses it. In this way, a transparent overview of all audit products realized by the SAI during the year is provided. A new way of publishing audit reports was also initiated, allowing the SAI to publish both reports and their summaries, in order to make the audit recommendations more transparent, simpler and more understandable to the public.

When it comes to the coverage of public funds by the audit, the SAI strategically plans audits based on multiple risk factors (one of them is the materiality of the audited transactions). Current planning manuals stipulate for the SAI to cover at least 70 percent of the total budget execution. In practice, the coverage within the audit of the final account for 2019 was 78.9 percent, and at the general level of the state it was 81 percent.

Further improvement of the scope and quality of external audits was achieved through the application of manuals and guidelines harmonized with ISSAI standards. In accordance with the Quality Assurance and Quality Control Manual, 17 “hot” and 7 “cold” reviews of audit reports were conducted in 2019. In 2020, in 20 audit reports, appropriate control was performed.

Based on the experience gained, the recommendations resulting from the stated reviews of audit reports, as well as further capacity building during 2019 and 2020, the following manuals were adopted and updated: 1. Amendments to the Methodological Rules and Guidelines for the Audit of Financial Statements, 2. Methodological Rules and Guidelines for Compliance Audit and 3. Methodological Rules and Guidelines for Performance Audit, for all three mentioned types of audits. As envisaged by the SAI Strategic Plan, the Methodological Rules and Guidelines for IT Audit were adopted in 2019, which are in line with ISSAI standards and best international auditing practices. Further development of the Methodology for Follow-Up and Recommendation Impact Evaluation continued.

With the support of the project "Public Finance Reform - 2030 Agenda", implemented by GIZ, in addition to the work on further implementation of the Human Resources Management Strategy, a working meeting was held on "Supreme Audit Institutions and Sustainable Development Goals".

Continuous capacity development of the SAI employees in 2019 and 2020 was achieved through the implementation of internal and international trainings, and participation in various

³⁶ <http://www.dri.rs/revizije/odazivni-izvestaji/2019-za-rev-2018.419.html> и <http://www.dri.rs/revizije/odazivni-izvestaji/2020-za-rev-2019.487.html>

³⁷ <http://www.dri.rs/revizije/poslerevizioni-izvestaji/2019-za-rev-2018.442.html> и <http://www.dri.rs/revizije/poslerevizioni-izvestaji/2020-za-rev-2019.484.html>

INTOSAI and EUROSAI working groups, as well as through the implementation of joint international audits.

Activity 5.1.2. Introduction of Audit Management System

Improving the efficiency and quality of the audit will also be achieved through the implementation of an audit management system. After the completion of the mapping process of the customized audit management software (*Audit Management System - AMS*), with which the SAI will digitise its processes, in 2019 the procurement process began. Following the international public procurement procedure, within the aforementioned UNDP project, on 8 June 2020 a contract was signed with the supplier, for the development of audit management software. A complete version of the software is expected in June 2021, followed by training in the use of the software. The use of such software will result in the new, better and more efficient performance of audit services.

European Commission Report on Serbia for 2020³⁸ points out that the SAI has continued to increase the scope and quality of audits of public funds, most notably through an increase in the number of performance audits conducted on an annual basis. Further improvement of the implementation of SAI recommendations by auditees is also supported.

Funding of the measure

Funding for the measure is mainly provided from the budget of the Republic of Serbia, and it is additionally financed from German and Swiss development assistance through projects implemented by the German Corporation for International Cooperation (GIZ), the United Nations Development Program (UNDP), U.S. Agency for International Development (USAID) and the UK Government Good Governance Fund (GGF 2).

Key challenges

The biggest challenges for the implementation of this measure are related to:

- Business premises that are not adequate and permanent, and at the same time they are not insufficient because they affect the ability of the SAI to employ additional staff.
- Separation between management and employees in two business facilities in Belgrade negatively affects the efficiency of management and implementation of operational objectives.

Planned for the coming period

- In the forthcoming period, having in mind both strategic goals and objectives, SAI will continue to conduct separate audits of financial statements, separate compliance audits and separate performance audits, while combined audits will be conducted based on the assessed risk.
- SAI activities will be aimed at further continuous improvement of audit procedures, human resources management and strengthening the influence of SAI through the improvement of systematic monitoring of the implementation of recommendations and communication.
- The SAI will continue to increase the effectiveness of its performance measurement and reporting systems. In the forthcoming period, we will develop comprehensive policies and procedures for measuring the performance and follow-up of recommendations for all types of audits, based on the adopted Methodology for Follow-Up and Performance Audit Recommendation Impact Evaluation. .

³⁸Document link: <https://www.mei.gov.rs/srp/dokumenta/eu-dokumenta/godisnji-izvestaji-ek>

- Existing manuals will be updated as necessary, while the new ones will be developed, such as one for environmental audits. At the same time, through workshops and exchanges of experience, as well as training for the use of the Sustainable Development Goals Review Model developed by the *INTOSAI Development Initiative (IDI)*, in order to further contribute to the SAI's implementation of sustainable development goals, further development of staff capacity will continue.
- The SAI will continue to strengthen its performance audit function and train (new) performance auditors, in order to ensure the conducting of an increasing number of performance audits in the future. Beside, in order to provide additional values and benefits to citizens in the coming period, special emphasis will be placed on increasing operational audits.
- In accordance with its competencies, the SAI will participate in the meetings of the Subcommittee and the Committee where SAI final reports on the performed audits will be presented and the legally binding action of the entities based on the conclusions, findings and recommendations contained in the said reports will be discussed, in the presence of the representatives of the SAI and the auditees.

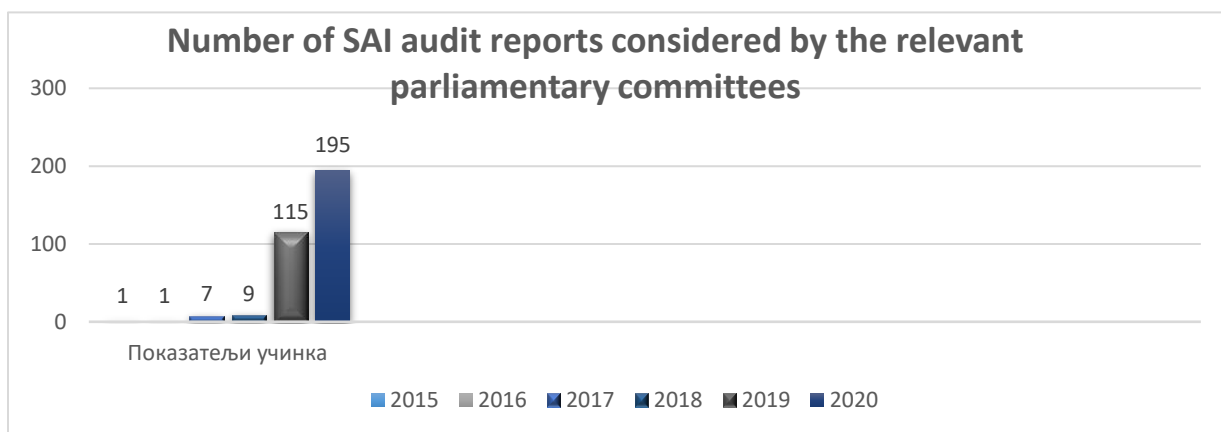
MEASURE – STRENGTHENING PARLIAMENTARY OVERSIGHT OF PUBLIC FINANCES

Key results by the end of 2019

- The parliamentary oversight function over public finances was improved by the establishment of a Subcommittee for reviewing the audit reports of the State Audit Institution (hereinafter: The Subcommittee) in February 2015, and by appointing new members of the Subcommittee in July 2016 and in October 2020;
- In the third quarter of 2017, significant progress was made with the adoption of the Guidelines for the work of the Subcommittee, which completed the preparatory actions for the full implementation of measure 19;
- A Memorandum of Understanding was signed between the Committee on Finance, State Budget and Control of Public Funds Spending of the National Parliament and the SAI in order to promote the principles of accountability, transparency and efficiency of public funds spending and define the basis for mutual cooperation;
- The Committee on Finance, State Budget and Control of of Public Funds Spending adopted at the session of the Committee and Subcommittee held in Novi Sad, on 30 August 2017, the Guidelines for Reviewing the SAI Reports on Performed Audits of Public Funds Beneficiaries.³⁹

³⁹<http://www.parlament.gov.rs/27.%D1%81%D0%B5%D0%B4%D0%BD%D0%B8%D1%86%D0%B0%D0%9E%D0%B4%D0%B1%D0%BE%D1%80%D0%B0.%D0%B7%D0%B0.%D1%84%D0%B8%D0%BD%D0%B0%D0%BD%D1%81%D0%B8%D1%98%D0%B5..32054.43.html>

- During 2019 and 2020, the Committee reviewed all reports of the State Audit Institution, Sectors 1-5; at the sessions of the Committee, based on the presentation of the Director of the Institution and the Supreme State Auditors, all observed faults in financial reporting, compliance and performance of auditees - public funds beneficiaries were presented, with SAI recommendations for elimination of irregularities. Based on the recommendations of the SAI, the Committee determined the proposal of the conclusion for elimination of irregularities in the work of auditees - public funds beneficiaries, which was adopted by the National Parliament and forwarded to the Government for implementation.



- *Graph 11: Number of SAI audit reports considered by the relevant parliamentary committees⁴⁰,⁴¹,⁴²*

⁴⁰For 2019, the considered reports are: SAI Activity Report for 2018; six sectoral reports of the SAI: Activity Report of the Sector for Audit of Budget and Budget Funds of the Republic of Serbia for 2018; Activity Report of the Sector for Audit of Budget of Local Authorities for 2018; Activity Report of the Sector for Audit of Mandatory Social Insurance Organizations for 2018; Activity Report of the Sector for Audit of Public Enterprises, Companies and Other Legal Entities Founded by the Republic of Serbia or with the Republic of Serbia as a Holder of a Share in the Capital of Other Legal Entities for 2018; Activity Report of the Sector for Audit of the National Bank of Serbia and Public Agencies and Other Public Funds Beneficiaries for 2018; Activity Report of the Sector for Performance Audit for 2018; Reports on Audits of Financial Statements conducted during 2019 (88 reports); Reports on Compliance Audits conducted during 2019 (7 reports); Reports on Audits of the Final Accounts of the Budget of the Republic of Serbia from 2008 to 2018 (11 reports); Report on Audit of Financial Statements and Compliance of Operations of the Town of Kruševac and the Effects of Implemented SAI Recommendations; Report on Audit of the Consolidated Financial Statements of the Final Account of the Budget of the Town of Zrenjanin for 2018 and the Report on Audit of the Consolidated Financial Statements of the Final Account of the Budget of the Town of Čačak for 2018.

⁴¹For 2018, the considered reports are: SAI Activity Report for 2017; six sectoral reports of the SAI: Activity Report of the Sector for Audit of Budget and Budget Funds of the Republic of Serbia for 2017; Activity Report of the Sector for Audit of Mandatory Social Insurance Organizations for 2017; Activity Report of the Sector for Audit of the National Bank of Serbia, Public Agencies and Other Public Funds Beneficiaries for 2017; Activity Report of the Sector for Audit of Budget of Local Authorities for 2017; - Activity Report of the Sector for Audit of Public Enterprises, Companies and Other Legal Entities Founded by a Public Funds Beneficiary or with a Public Funds Beneficiary as a Holder of a Share in the Capital or Management for 2017; Activity Report of the Sector for Performance Audit for 2017, as well as the SAI Report on conducted Audit of the Town of Subotica and the Effects of the Implemented Recommendations of the State Audit Institution and the Report on Audit of Consolidated Financial Statements of the Budget and Compliance of the Town of Leskovac for 2015 and the Audit of the Response Report for 2017.

⁴²For 2017, the considered reports are: Activity Report of the Sector for Audit of Budget and Budget Funds of the Republic of Serbia for 2016 and recommendations and other effects of audits conducted in 2016; Activity Report of the Sector for Audit of Mandatory Social Insurance Organizations for 2016 and recommendations and other effects of audits conducted in 2016; Activity Report of the Sector for Audit of the National Bank of Serbia and Public Agencies and Other Public Funds Beneficiaries for 2016 and recommendations and other effects of audits conducted in 2016; Activity Report of the Sector for Audit of Budget of Local Authorities for 2016 and recommendations and other effects of audits conducted in 2016; Activity Report of the Sector for Audit of Public Enterprises, Companies and Other Legal Entities Founded by a Public Funds Beneficiary or with a Public Funds Beneficiary as a Holder of a Share in the Capital or Management for 2016 and recommendations and other effects of audits conducted in 2016; Activity Report of the Sector for Performance Audit for 2016 and recommendations and other effects of audits conducted in 2016; as well as the SAI Activity Report for 2016.

Attained in 2020

After its constitution on 26 October 2020, the Committee, in addition to its legislative activity within which it reviewed 39 proposed laws (of which one Budget Revision for 2020 and the Proposal of the Budget System Law of the Republic of Serbia for 2021) and 30 other enactments, held four sessions outside the seat of the National Parliament until the end of 2020, at which the reports on the audit of the consolidated financial statements of the final account for 2019 of the Municipality of Vračar, the Town of Niš and the Autonomous Province of

By holding four sessions outside the seat, the indicator for 2020, which measures progress in this area, has been fulfilled.

Vojvodina were discussed. Beside the representatives of the State Audit Institution, these sessions were attended by the representatives of municipal and town authorities who, in a direct conversation, were given the opportunity to express their opinion and declare about the identified irregularities, as well as to consult on measures to eliminate them. Other special, sectoral reports prepared for 2019 by the State Audit Institution (number in the table) and, in accordance with the law, submitted to the National Parliament were also reviewed at the sessions outside the seat. Representatives of the State Audit Institution informed the Committee that the audit identified a number of irregularities in terms of unreliable accounting records, non-use of subsidiary ledgers, poor functioning of internal control, inventory of assets and public procurement. The audit reports provide recommendations with measures to eliminate the observed irregularities and the auditees - public funds beneficiaries were given deadlines for their elimination. Special attention was paid to performance reports in areas such as: centralized public procurement; status of water and industrial waste management; water infrastructure management; availability and adequacy of potable water; leasing of business premises owned by local self-government units; effectiveness of incentives in livestock breeding; efficiency of public authorities' supervision over mineral exploitation, and others. It was established in all cases that more efficient supervision of the competent authorities was needed, and that the problems in these areas should be solved as a priority because they were of vital interest for human health, healthy environment, conservation of resources and stability of public finances.

At the session of the Committee, the methodological procedure for determining and monitoring the effectiveness of the given recommendations was presented; the status of each recommendation regarding its execution can be found on the website of the State Audit Institution and it is expected that during 2021 and 2022 the audit procedure will be digitised, when the State Audit Institution and the National Parliament will be networked. This will improve the procedure of conducting supervision, but also the mutual cooperation between the SAI and the National Parliament, i.e. the Committee.

It was concluded that the reform of public finances cannot be successfully implemented unless full control in the field of public finances is not provided so that irregularities in the work of public funds beneficiaries are reduced to a minimum. In that sense, there is a great responsibility both on the public funds beneficiaries and on the bodies of executive and legislative power that monitor the execution of regulations, i.e. conduct supervision over the work of the executive power.

In 2020, the National Parliament, in the process of supervising the work of the State Audit Institution and at the proposal of the Committee on Finance, State Budget and Control of Public Funds Spending, adopted a conclusion adopting the State Audit Institution Activity Report for 2019. The National Parliament assessed that the State Audit Institution, in its Activity Report for

2019, fully presented the activities of the State Audit Institution in the execution of its constitutional and legal competencies in the audit of public funds in the Republic of Serbia. Based on the recommendations of the State Audit Institution contained in the State Audit Institution Activity Report for 2019, the National Parliament recommended that the Government take measures within its competence to ensure the implementation of the State Audit Institution's recommendations, primarily by proposing to the National Parliament appropriate laws, i.e. by amending the by-laws that it adopted independently, and regulations within the competence of the ministries that are specifically indicated in the Report. Starting from the findings of the State Audit Institution that the majority of audited public funds beneficiaries did not have an internal control system in place that ensured business operations compliant with regulations, the National Parliament concluded that it was necessary for the Government, in line with its competence to execute laws, to ensure consistent implementation of the Budget System Law in the part related to the obligation to establish an adequate system of financial management and control and to introduce internal audit among public funds beneficiaries. The Committee will monitor the implementation of the conclusion of the National Parliament, the execution of which is within the competence of the Government - the Ministry of Finance.

The Report on the Audit of the Final Account of the Budget for 2019 was discussed at the Committee session, and the Ministry of Finance accepted all SAI recommendations in its Response Report to the Audit Report.

Sessions of the National Parliament of the Republic of Serbia and sessions of all working bodies, press conferences, public debates, activities of the Speaker of the National Parliament and other events can be followed live or accessed through archives on the website, thus providing access to the media and interested NGOs and the third parties.

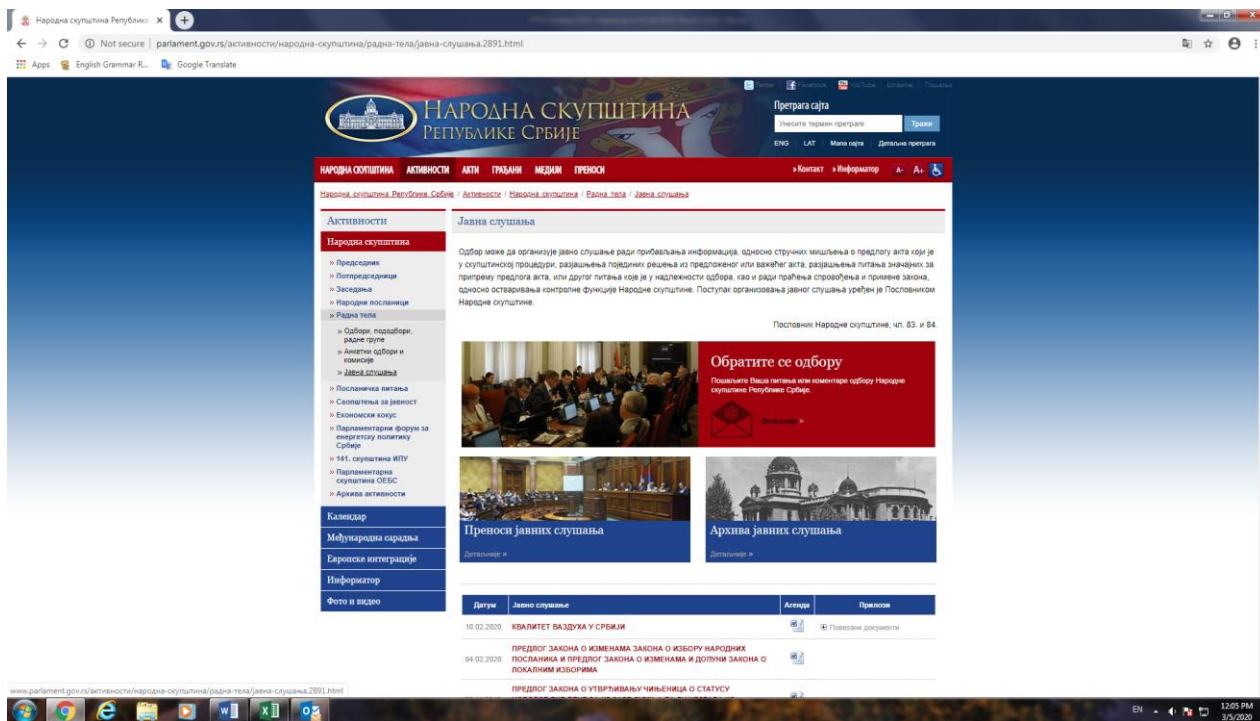


Illustration 12: Public hearings

Funding of the measure

PFMRP does not specify an additional amount for financing the activities of the Committee on Finance, State Budget and Control of Public Funds Spending of the National Parliament because all activities are carried out within the funds secured by the parliamentary budget and the funds provided by project financing.

Key challenges in implementing the measure

Failure of the competent ministry to comply with the conclusion of the National Parliament on the adoption of the SAI Annual Activity Report and the established recommendations - measures to eliminate irregularities in financial reporting and operations of public funds beneficiaries; unjustified extension of the time required for drafting of laws and other by-laws, based on SAI recommendations.

Planned for the coming period

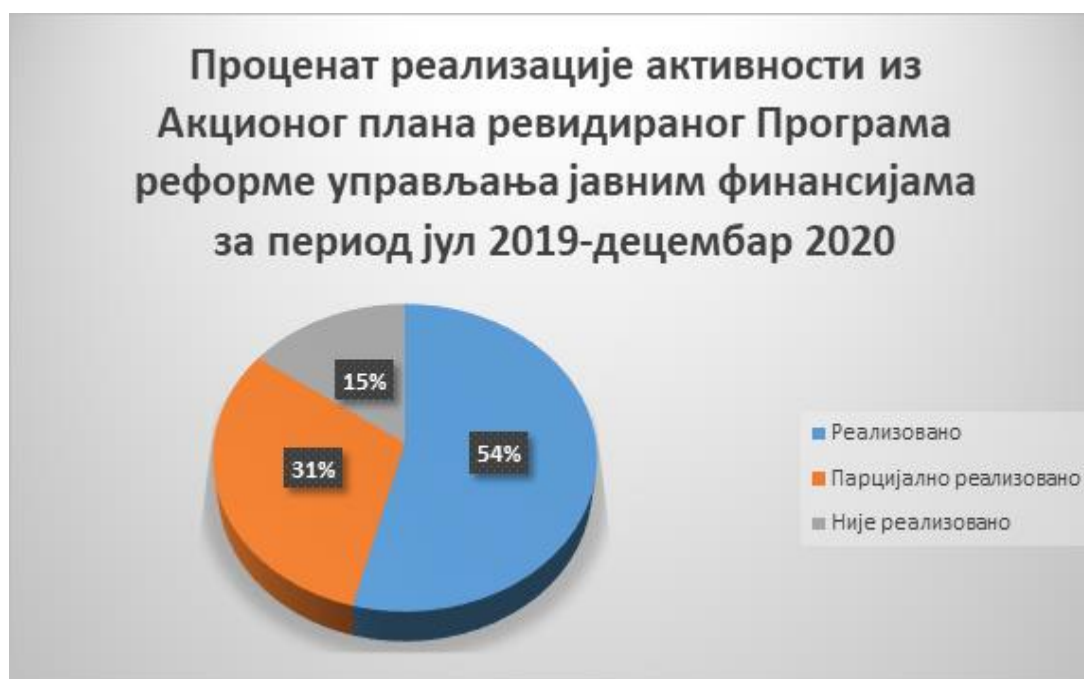
- The Committee will conduct efficient parliamentary oversight of public finances by monitoring the implementation of measures listed in the conclusion of the National Parliament on the occasion of the adoption of the SAI Activity Report for 2019. Execution of measures listed in the parliamentary conclusion refers to the drafting of new regulations and by-laws or to amendments to valid regulations listed in the SAI Annual Report, which the Government should submit to the National Parliament for consideration and enactment.
- In addition to the SAI Annual Activity Report, the Committee will review all individual, sectoral reports of the SAI in order to gain a more complete insight into the compliance of financial reporting, operations and performance of public funds beneficiaries, with the effects and efficiency of implementation of recommended measures.
- The Committee will monitor the implementation of the conclusion of the National Parliament, the execution of which is within the competence of the Government through the Consolidated Annual Report on the State of Internal Financial Control in the Public Sector, prepared by the Ministry of Finance.
- At the Committee and Subcommittee sessions, when discussing SAI reports or other issues relevant to the control function, the Committee will ensure the presence of SAI President, members of the Council and Supreme State Auditors - heads of SAI sectors and, if necessary, presence of the representatives of other relevant bodies, organizations and institutions, in order to determine further courses of work and the most appropriate measures for action at the highest professional level of reporting and discussion.
- The practice of holding sessions outside the seat of the National Parliament will continue, for discussing reports on the financial, compliance and performance audits of municipalities and cities, in the presence of representatives of SAI and local authorities. Depending on the established agenda, representatives of the Ministry of Finance will be invited to the meetings of the Committee held outside its seat.
- The Committee will review the report on the audit of the final account of the budget of the Republic of Serbia, along with the draft law on the final account of the budget, in agreement with the President of the SAI.
- The Committee will organize public hearing in the National Parliament to present the proposal of the Budget System Law and the draft Law on Final Account of the Budget for

the following year, in order to allow the Members of Parliament and other participants to pose questions and receive timely information.

- It is planned to engage an expert team that would provide expert support to the members of the Subcommittee, i.e. the Committee in reviewing the State Audit Institution Audit Reports. The expert team would consist of professors from the faculties of economics, representatives of the Governmental Audit Office of EU Funds, the Chamber of Certified Auditors of Serbia, the Association of Internal Auditors of Serbia, as well as representatives of *SIGMA*, *GIZ* and the European Union Delegation in Belgrade.

Conclusions

The last year of the implementation of the Public Finance Management Reform Programme was the most challenging, having in mind the Corona virus pandemic, which to some extent influenced the postponement of certain activities planned for implementation within the Action Plan. Therefore, some activities were not fully conducted, although significant measures were taken during the reporting period. The realization of these activities has been largely postponed for 2021. In that sense, the percent of realization of the Action Plan for the period from July 2019 to December 2020 is shown in the following table:



Graph 12: Percentage of realization of activities from the Action Plan for the revised Public Finance Management Reform Programme for the period July 2019-December 2020

The review of the Action Plan indicates that the biggest challenges in the implementation of PFMRP in 2020 are in most cases of a technical nature, and relate to delays in the adoption of

strategic documents, laws and by-laws, and the challenges to strengthen administrative capacity, especially caused by the COVID-19 pandemic.

Work on drafting the new PFMRP and the supporting Action Plan for the period 2021-2025, as well as participation in the preparation of the umbrella Strategy for the Public Administration Reform for the period 2021-2030 marked the year 2020. The new Programme is expected to further contribute to increased performance focus, better prioritization and sequence of activities, as well as better assessment of financial effects and adequate linkage with relevant strategic documents, in line with the Law on Planning System.

The preparation of the new PFMRP was carried out by the Ministry of Finance and the PFMRP Working Group consisting of the competent ministries and government bodies, as well as the SAI and the National Parliament of the Republic of Serbia. Extremely good cooperation of all competent institutions marked both the implementation of the previous PFMRP and the preparation of the new Programme.

Significant support in this process, as before, was provided by the European Commission, SIGMA experts, and the PEFA assessment conducted by the World Bank, as well as German and Swiss development assistance projects "Public Finance Reform – 2030 Agenda" and complementary technical assistance for public finance reform within the sectoral budget support for public administration reform financed from IPA 2015.

In 2021, finalisation of the public debate is expected and the adoption of PFMRP 2021-2025 with the accompanying Action Plan for the same period. The new PFMRP will focus on further improving the legislative and strategic framework in the area of public finance management reform, strengthening the digitisation process and IT systems and their interconnections, as well as improving administrative capacity, especially through training, with a special focus on obligations assumed in the European integration process.

The 2021-2025 PFMRP is a logical step after the completion of the previous PFMRP, because it ensures the continuity of reform activities, full implementation of the initiated reform processes and further progress in achieving international standards in all areas of public finance management reform.