



РЕПУБЛИКА СРБИЈА
МИНИСТАРСТВО ФИНАНСИЈА

**REVISED PUBLIC FINANCIAL MANAGEMENT
REFORM PROGRAM 2016–2020**

**FOR THE PERIOD FROM JULY 2019 TO
DECEMBER 2020**

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ABBREVIATIONS AND ACRONYMS

AFCOS	Anti-Fraud Coordination Service for combating irregularities and fraud in dealing with EU funds
SBRA	Serbian Business Registers Agency
BI	Budget Inspection
DBB	Direct budget beneficiaries
SAI	State Audit Institution
SOE	State-owned Enterprise
ERIAN	Risk analysis Management System
EPSAS	European Public Sector Accounting Standards
EU	European Union
EC	European Commission
EUROSAI	European Organization of Supreme Audit Institutions
GAO	Governmental Audit Office of EU Funds
GIZ	German Society for International Cooperation
IBB	Indirect Budget Beneficiaries
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
INTOSAI	International Organization of Supreme Audit Institutions
IA	Internal Audit
PIFC	Public Sector Internal Financial Control Development Strategy of the Republic of Serbia
LGU	Local Government Unit
PFB	Public Funds Beneficiary
MPALSG	Ministry of State Administration and Local Self-Government
MEI	Ministry of European Integration
IMF	International Monetary Fund
MF	Ministry of Finance
NAPA	National Academy for Public Administration
NCTS	New Computerized Transit System
OECD	Organization for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PEFA	Public Expenditure and Financial Accountability
PIMIS	Public Investment Management Information System
RoP	Registry of Payments
PAR	Public Administration Reform
PPS	Public Policy Secretariat
SBA	Stand-By Arrangement
SDC	Swiss Agency for Development and Cooperation
SIGMA	Support for Improvement in Governance and Management
TAIEX	Technical Assistance and Information Exchange
PDA	Public Debt Administration
PPO	Public Procurement Office
PFM	Public financial management
UNDP	United Nations Development Program
USAID	US Agency for International Development
FMC	Financial Management and Control
CHU	Central Harmonization Unit

CIR Central Invoice Register

1.1. OVERVIEW OF PROGRAM IMPROVEMENT AND CONSULTATIONS

Significant efforts have been made in the past decade in respect to reforming public finances in the Republic of Serbia. However, the alignment and sequence of implementing reform activities in different public financial management subsystems were not entirely satisfactory, leading to inconsistent progress in several key areas of public financial management. In view of the existing gaps in this area, the decision was made to draft a comprehensive Public Financial Management Reform Program (Program) to serve as the main guiding principle for the 2016–2020 reforms, with the purpose of reinforcing the legal and institutional frameworks for public financial management in accordance with international and EU standards.

The Public Financial Management Reform Program 2016–2020 (PFM RP) and the accompanying Action Plan for the entire period of Program validity were adopted by the Government of the Republic of Serbia on 28 November 2015. The Program's adoption provided the foundations for initiating reforms in public financial management in a structured way, and the regular monitoring and reporting on the implementation of planned results enabled timely identification of the biggest challenges in implementing reform activities. The PFM RP was deemed as an adequate framework for improving public financial management, as upheld in different international reports, namely: 2017 SIGMA report¹, IMF's Seventh and Eighth Review from September² and December 2017³, and European Commission's 2018 Progress Report⁴.

The Program's main objective is to achieve a more balanced and sustainable budget, while reducing public debt, strengthening financial management and control, and improving the audit control process. The Program is fully aligned with the budget cycle, with a purpose of contributing to linking budget execution in the best possible way with different governmental policies, thus contributing to increased transparency of these processes.

Significant progress in achieving the results envisaged under the PFM RP Action Plan 2016–2020, was made over the two-year reform implementation, as verified by the statistical data which showed that 50% of the planned reform activities were implemented⁵.

The greatest progress in the previous period was made in the following areas: improvement of the credibility of macroeconomic forecasts, better mid-term planning by budget beneficiaries, further improvement of Program budgeting, improvement in financial control of public funds

¹ *The Principles of Public Administration*, <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>

² *IMF Staff Concludes Visit to Serbia*, <https://www.imf.org/en/News/Articles/2017/09/19/pr17358-imf-staff-concludes-visit-to-serbia>

³ *IMF Executive Board Completes the Eighth Review of Serbia's Stand-By Arrangement*, <https://www.imf.org/en/News/Articles/2017/12/20/pr17515-eighth-review-of-serbia-stand-by-arrangement>

⁴ The 2018 report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf)

⁵ Report on the implementation of the Public Financial Management Reform Program 2016–2020 for the period from December 2015 to December 2017, <https://www.mfin.gov.rs/UserFiles/File/strategije/2018/Izvestaj%20o%20sprovodjenju%20Programa%20reform e%20upravljanja%20javnim%20finansijama%20dec%202015%20-%20dec%202017.pdf>

through the adoption and implementation of the Public Sector Internal Financial Control Development Strategy in the Republic of Serbia 2017–2020 (PIFC), enhanced coverage and quality of fiscal reports and budget execution reports, further progress in the area of public procurement, progress in the work of the State Audit Institution. Furthermore, the introduction of new models, analytical tools software, trainings, as well as improved data exchange and transparency all enabled greater public insight into the flow of public finances and introduction of EU standards in this area.

In addition to modifying legal regulations and strengthening administrative capacities, another necessity identified as a fundamental component of implementing reform measures to create an efficient public financial management system was the need to invest in upgrading and integrating the existing IT capacities, which has been reinforced by the World Bank’s vertical functional analysis of the Ministry of Finance. As part of the PFMRP Action Plan’s implementation, the Ministry of Finance’s IT capacities have been considerably improved; the Budget Information System for budgeting (BIS) has been developed and the Information System for Budget Execution (ISIB) has been upgraded, which enabled 529 IBBs to be included in the budget execution system; a system for retrieving annual reports on the state of play in financial management and control by public funds beneficiaries has been developed and tested as the Public Debt Management System.

The process of progress monitoring in the PMF reform was launched in 2016, with the Ministry of Finance reporting to the Government of the Republic of Serbia, European Commission, and civil society representatives on the progress achieved. The analysis of the achieved results showed that the biggest challenges in implementing the planned reform measures were for the most part technical in nature — the delays in implementation were caused by delayed adoption procedures for strategic documents and primary and secondary legislation, mostly brought about by lengthy internal and interinstitutional consultations regarding the alignment of the documents’ texts and the complexity of their content.

In addition, another major challenge identified in the reform’s implementation — both for the umbrella Public Administration Reform Strategy (PAR) and the PFM RP — was the strengthening of administrative capacities, taking into account the limited opportunities for new employment, as well as the outflow of professional staff from public administration. The adoption of the Law on Amendments to the Law on Civil Servants⁶ **is part of the civil service system reform process, rooted in the Public Administration Reform Strategy in the Republic of Serbia⁷. The reasons for adopting the law and simultaneously identifying the issues that the law is supposed to solve, stem directly from the objectives set out in the Strategy, the Action Plan for the implementation of the Public Administration Reform Strategy in the Republic of Serbia 2018–2020, the Action Plan for Chapter 22: Regional Policy and Coordination of Structural Instruments, and other strategic documents. These documents primarily centre on strengthening and improving the professionalisation of civil servants and establishing a civil service system resting on the principles of transparency, competitiveness, and depoliticisation. The mentioned amendments to the Law, among other things, pinpoint measures that are intended to help to retain quality staff and fill lacking positions. Keeping in mind the effects that staff outflow has on increased government bodies’ operating costs, reduced employee motivation, and dwindling productivity and quality of government bodies’ performance, the**

⁶Official Gazette of RS, No 95/18

⁷Official Gazette of RS, No 9/14 and 42/14 — correction

Government's amendments to the Law on Civil Servants introduced mandatory monitoring and created opportunities for timely response in order to ensure that staff needs are met (mainly the number of employees and the level of education and skills required for ongoing job performance). In line with this, the Staff Outflow Monitoring Methodology⁸ was adopted, creating the opportunity for preventive action — timely response to employee dissatisfaction and taking steps to retain staff. In addition to the fact that the Staff Outflow Monitoring Methodology is applied to all public administration bodies, special attention was drawn to the need for monitoring staff outflow in priority areas (specified in the document Public Administration HR Management Policy Framework in the Republic of Serbia), such as roles grouped under European integration, standardisation, analytics, inspection, and management. The list of priority areas is intended to allow for modifications in accordance with the actual data and valid human resources management policy. The monitoring of the situation until an HR management system is introduced is designed to be carried out on a monthly basis using a number of quantitative and qualitative methods and techniques for collecting relevant information. The staff outflow analysis will be conducted at least once a year, and the report containing proposed staff retention measures will be submitted by the HR Management Service to the Government by 30 September, in order to allow sufficient time for potential adoption of these measures and their inclusion in the budget plan for the following year. In the event of any emergency developments related to staff outflow in any segment, the HRMD will propose measures that are relevant to the situation at a given time.

In accordance with the conclusions of the PFM RP Steering Committee and the PFM RP Working Group, as well as SIGMA and European Commission recommendations, the decision was made to review the existing PFM RP and to draft a new Action Plan for the period from July 2019 to December 2020. Taking into account that the PFM RP was drafted in the course of 2015 and that the activities and deadlines were planned for the Program's entire validity period — up until 2020 — and that the activities were mainly focused on the first two years of the Program's implementation, all relevant stakeholders agreed that the Program must be revised for the period from July 2019 to December 2020, in line with the current state of play in the public financial management reform and the identified challenges described in the PFM RP Implementation Report as of December 2017. The final conclusion was that — in addition to the new activities for a period of year and a half — it was necessary to improve the Program by formulating better indicators, realistic timelines, and precise and reliable estimation of financial effects — the required resources for executing all planned activities, both from budgetary and donor funds.

In May 2018, the revision of the existing Action Plan was initiated, along with the drafting of a new one for the period from July 2019 to December 2020 by the Working Group — composed of representatives of the Ministry of Finance and relevant line ministries and government bodies, as well as the State Audit Institution and the National Assembly's Committee on Finance, State Budget and Control of Public Spending — through joint workshops that considered the results achieved in the previous implementation period, strategic documents, as well as obligations concerning the negotiating chapters within the Working Group's scope. Members of the Working Group for the development, monitoring, and reporting on the implementation of the Public Financial Management Reform Program (PFM RP Working Group) were re-appointed by the Minister for Finance's decision in August 2018. November

⁸Official Gazette of RS, No 79/05, 81/05 — correction, 83/05 — correction, 64/07, 67/07 — correction, 116/08, 104/09, 99/14, 94/17, and 95/18

2018 saw the workshops continue in order to finalize the objectives, measures, planned activities, and especially detailed assessment of additional funding — the funds required to finance the Program’s implementation.



The workshop with SIGMA consultants on the formulation of Program objectives and indicators — May 2018.

The new Program’s preparation is set to be finalized in the third quarter of 2019. The draft revised Program and the accompanying Action Plan were discussed at the third Public Financial Management Policy Dialogue meeting, together with the draft Report on the implementation of the PFM RP for the previous year. The 2018 Program implementation Report was adopted in March 2019, following the Public Financial Management Policy Dialogue meeting. After all stakeholders submit their comments, the revised PFM RP will be adopted at a session of the Government of the Republic of Serbia. Moreover, the preparation of the revised Program was planned not long after the adoption of the Republic of Serbia’s Law on Planning System, which will contribute to better Program drafting and more reliable planning of further steps. In accordance with the provisions of the Republic of Serbia’s Law on Planning System, the civil sector also took part in the drafting of the new Program by holding consultations that took place in early 2019 as part of the Public Financial Management Policy Dialogue meeting. The draft document and the accompanying Action Plan were available on the Ministry of Finance’s official website and stakeholders were able to comment and make suggestions.

The Public Financial Management Policy Dialogue was launched in 2017 as a platform for sharing viewpoints and discussions centred around public financial management reform, and three meetings have been held since that time. The main purpose of the conference is to ensure an appropriate exchange of information about the progress in PFM RP implementation and to obtain adequate input from all relevant stakeholders, including the European Commission, international financial institutions, bilateral donors, and civil society. The invitation for every Public Financial Management Policy Dialogue meeting is sent through the Office for Cooperation with Civil Society to civil sector representatives who are interested in attending the meeting, alongside a time-limited invitation to send their comments and suggestions regarding the Program to a dedicated email for this purpose — pfmdijalog@mfin.gov.rs.

Unfortunately, the civil sector is underdeveloped when it comes to public financial management, which consequently results in not many comments and suggestions that help to improve the document's quality.

Just like before, significant support in the process was provided by SIGMA and the German Corporation for International Cooperation (GIZ) project titled "Public Finance Reform and Agenda 2030".

Public finance reform is one of the key pillars of the Public Administration Reform (PAR) in the Republic of Serbia and, as such, it is embedded in the PAR Strategy and Action Plans for the implementation of the PAR Strategy for the periods 2015–2017 and 2018–2020. The key activities in budget planning and drafting, financial control, and public procurement are further defined in the third specific objective of the Action Plan for PARS implementation, adopted by the Government of the Republic of Serbia in March 2018. The current Program supplements the PAR Strategy with specific goals and activities described in detail, defined in the public financial management pillars, and at the same time it represents a separate activity from the PAR implementation Action Plan.

The Special Public Administration Reform Group — formed within the monitoring of the Stabilization and Association Agreement's implementation and co-chaired by the European Commission and the Ministry of Public Administration and Local Self-Government of the Republic of Serbia — will continue to serve as an appropriate tool for the communication, coordination, and reporting on the public financial management reform. The progress in the public finance reform is also monitored through the implementation of the IPA Sector Budget Support instrument.

In most subareas of public financial management, the strategy for public financial management reform is supported by more detailed planning documents developed by the relevant competent authorities, such as the Tax Administration Transformation Program, Strategy for Resolving and Preventing Late Payments, National Anti-Corruption Strategy, Public Procurement Development Strategy in the Republic of Serbia, Public Sector Internal Financial Control Development Strategy of the Republic of Serbia, Strategy for Combating Irregularities and Fraud in Dealing with EU Funds in the Republic of Serbia 2017–2020, etc. For the sake of a comprehensive approach and because of the importance of external auditing in public financial management, reforms in this area are covered by this document, as well. During the implementation and revision of the PFM RP, special focus was placed on the interconnectedness and complementarity of these strategic documents, as well as to the obligations in the EU accession and joining process.

In short, the PFM RP represents an expression of the commitment of the Government of the Republic of Serbia to implement a comprehensive set of interconnected and synchronised reforms in the area of public financial management in the broadest sense, all of which are aimed at increasing accountability, as well as ensuring sound financial management and good governance, by improving the efficiency and effectiveness of public resource management in the Republic of Serbia, in order to pave the way for a smooth transition into the EU's public administrative framework.

1.2. OVERVIEW OF THE PUBLIC FINANCIAL MANAGEMENT REFORM: STATE OF PLAY AND KEY CHALLENGES

The current PFM RP 2016–2020 articulates the reform measures, results, and activities stemming from the previously developed gap analyses of the public finance management in the Republic of Serbia, such as the analysis carried out by the European Commission during the screening process in the accession negotiations in the period from 2013 to 2015 under the relevant negotiating chapters, SIGMA 2015 Public Financial Management Report, the 2015 IMF Fiscal Risks Assessment, Reporting and Budget Preparation Report, and 2015 PEFA evaluation. The identified shortcomings of the public financial management system, all relevant national strategic documents, and the relevance for meeting the requirements for EU accession were the baseline criteria for selecting measures for the current Program 2016–2020. By adopting the PFM RP 2016–2020 in December 2015, Serbia established a valid framework for the public finance management reform that includes all relevant subsystems. The PFM RP has provided an appropriate framework for improving public financial management, as supported by various international sources that were also used in preparing the PFM RP improvement, specifically: SIGMA 2017 Report⁹, *IMF Seventh and Eighth Reviews, September*¹⁰ and *December*¹¹ 2017, and *European Commission (Progress Report for the Republic of Serbia)*¹².

With the new PFM RP Action Plan for the period from July 2019 to 2020, members of the Working Group on Reporting, Monitoring and Reporting on the Public Financial Management Reform Program implementation have developed — based on the detailed analysis of the achieved results in the past two years of the PFM RP implementation — a proposal of objectives and activities to additionally enhance public financial management in the Republic of Serbia in the coming period. In addition, the drafting of the new AP placed special focus on properly formulating indicators, more realistically assessing time frames, and evenly scheduling activities, as well as on accurately and reliably estimating additional financial means — funds required to deliver all planned activities from different sources.

The reforms in the PFM RP 2016–2020 are structured in six broader pillars. Taking into consideration that all planned results under the first pillar, which pertains to a sustainable mid-term macrofiscal and budgetary framework, were achieved within the set deadlines and that no special reform measures in this area are planned in the next year and a half, the decision was made to leave this pillar out of the revised Program, so that the PFM RP AP for the period from July 2019 to December 2020 is resting on five pillars.

⁹ *The Principles of Public Administration*, <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>

¹⁰ *IMF Staff Concludes Visit to Serbia*, <https://www.imf.org/en/News/Articles/2017/09/19/pr17358-imf-staff-concludes-visit-to-serbia>

¹¹ *IMF Executive Board Completes the Eighth Review of Serbia's Stand-By Arrangement*, <https://www.imf.org/en/News/Articles/2017/12/20/pr17515-eighth-review-of-serbia-stand-by-arrangement>

¹²The 2018 report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaji_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaji_ek_o_srbiji(1).pdf)

Sustainable mid-term macrofiscal and budgetary framework: The IMF and SIGMA assessed the macroeconomic and fiscal forecasts and the risk analysis prepared by the Ministry of Finance in the past period as credible and reliable.¹³ The SIGMA report rated the strength of the mid-term budgetary framework at 4, which represents a significant improvement in comparison with the 2015 rating, which stood at 2. Using fiscal consolidation measures and structural reforms, the Government of the Republic of Serbia established stability in its public finances, as well as that in its macroeconomic environment. The fiscal consolidation measures were supported by a three-year Stand-By Arrangement with the IMF, which Serbia successfully completed in February 2018. The Program's evaluation was very positive, both in terms of comprehensiveness and in terms of fiscal and monetary performance, which consistently exceeded expectations. The 2018 fiscal trends surpassed those that were planned, with a surplus of RSD 32.2 billion at the end of 2018. The Serbian Government concluded a new Program with the IMF titled Policy Coordination Instrument (PCI), which is advisory and developmental in nature, requiring no financial assistance and centres around structural reforms.

Public expenditure planning and budgeting: Over the past two years, the Ministry of Finance has invested significant efforts to enhance the quality and transparency of the budgeting process. The most significant advancements could be observed in the introduction of Program budget, development of monitoring and reporting on the performance of defined programs, and increased state budget and budget documentation coverage through the inclusion of project loans in the 2017 Budget Law. Large infrastructure projects were integrated into the Republic of Serbia's budget, making it more comprehensive and transparent. The Budget Information System (BIS) was developed and now it makes it easier and more efficient to enter financial plans, while also simplifying the process of analysing and consolidating financial plans of budget beneficiaries. Transparency was increased through the introduction of the legal obligation on budget beneficiaries to publish information on the budget Program and performance reports. On 27 June 2017, the Government adopted the Decree on the Content, Manner of Preparation and Evaluation, and Monitoring and Reporting on the Implementation of Capital Projects, while the National Assembly passed the Law on Planning System of the Republic of Serbia on 19 April 2018.

The Republic of Serbia's Law on Planning System was adopted primarily because of the need to establish an efficient, transparent, coordinated, and realistic planning system in the Republic of Serbia, autonomous provinces, and local self-government units, covering all key aspects of social and economic development policy and regional and spatial development, with optimal use of budgetary resources, ensuring sustainable growth, and development of the Republic of Serbia, including autonomous provinces and local self-government units, as well as effective implementation of the process of accession to the European Union, especially in the context of the requirements stemming from Chapter 17: Economic and Monetary Policy and Chapter 22: Regional Policy and Coordination of Structural Instruments.

On 31 January 2019, the Government adopted the Decree on the Methodology of Public Policy Management, Analysis of the Effects of Public Policies and Regulations, and Content of Specific Public Policy Documents, while the Decree on the Methodology for the Development of mid-term Plans was adopted on 7 February 2019. Both Decrees entered into force on 16 February 2019. Those bound by the obligation to develop mid-term plans are required to start drafting their mid-term plans in accordance with the Planning System Law starting from the

¹³ *The Principles of Public Administration*, <http://www.sigmaxweb.org/publications/Monitoring-Report-2017-Serbia.pdf> crp. 129.

mid-term plan for 2020. The compliance of mid-term plans with the Decree on the methodology for drafting mid-term plans is also one of the indicators for the payment of the variable tranche under the Sectoral Budget Support in the area of public administration reform.

One of the identified challenges and priorities is most certainly further improvement of public investment management. On 25 April 2019, the Government of the Republic of Serbia established the Capital Project Management Committee, and in early July 2019 it adopted the uniform Capital Project Management Methodology, which in turn served as basis for the Government to adopt the new Decree on Capital Project Management in the Republic of Serbia on 18 July 2019¹⁴. In the forthcoming period, accompanying Regulations need to be drafted with a view to further regulating the functioning of new mechanisms in capital project management.

Furthermore, work will be started to conduct an adequate analysis centred on the performance of all budget Programs in the forthcoming period. Specifically, further regulating is required for using information from the Program Performance Report in order to make the decisions on budget spending aligned with the achieved results. That would improve budgeting and public policy planning based on Program performance monitoring and reporting, which is in line with the key recommendations in the SIGMA report for increasing the transparency and comprehensiveness of budget reporting.

Efficient and effective budget execution: Increasing revenue is one of the Serbian Government's most important fiscal consolidation measures, which have produced excellent results in the previous period. Specifically, the fiscal consolidation resulted in higher non-tax revenues, higher VAT revenues, higher income tax and corporate income tax collection, and higher excise tax revenues, with corporate income tax revenues making the biggest contribution to better execution. In 2017, corporate income tax exceeded the plan by as much as 30.8%, above all as a result of the economy's profitability growing.¹⁵ The tax collection target in 2017 surpassed the set indicator of 87%, and the value generated in 2017 stood at as high as 96%. Last year, more than 586 billion dinars poured into the state budget thanks to the Customs Administration — 10.47% more money than in 2017, when the revenues collected by the Customs Administration amounted to 11.17% as a percentage of GDP.

At the end of 2017, amendments to the Regulation on the Budget Execution System of the Republic of Serbia were adopted.¹⁶ Significant reform steps were taken by the Treasury Administration, most notably the launching of the Central Invoice Register, which has contributed to more efficient monitoring of arrears and improved planning and management of public funds. That enhanced the system of monitoring and overseeing the settlement of obligations among public sector entities within the deadlines prescribed by the Law.

The Serbian Government successfully restructured the Republic of Serbia's public debt in the previous period. The Republic of Serbia's public debt trajectory has been reversed since 2016 and the data shows that the central government's share of the public debt in GDP dropped to 53.8% in December 2018. Further work is needed to develop the securities market at the local

¹⁴Official Gazette of the RS, No 51 dated 19 July 2019.

¹⁵ The Republic of Serbia's 2019 Fiscal Strategy,

<http://www.mfin.gov.rs/UserFiles/File/strategije/2019/FISKALNA%20STRATEGIJA%20ZA%202019.pdf>

¹⁶ Regulation on the Budget Execution System of the Republic of Serbia (Official Gazette of the RS, No 83/2010, 53/2012, 20/2014, 88/2016, and 110/2017) — unofficially edited by the Official Gazette editorial staff, <http://www.mfin.gov.rs/pages/article.php?id=13459>

level, by introducing a system of primary dealers. In addition, further improvement is expected in the public debt management software, with the development and implementation of a methodology for conducting long-term public debt sustainability analysis.

The new Public Procurement Law is expected to be passed in the course of 2019. The legal framework is in principle aligned with the EU acquis, and the adoption of the planned secondary legislation and the development of the supporting documentation will lead to further alignment with EU directives pertaining to this area.¹⁷ The preparation and adoption of the Public Procurement System Development Strategy 2019–2023 will be taking place in the forthcoming period.

The Tobacco Administration was not involved in the Public Financial Management Reform Program adopted in 2015. However, given the Administration's scope, the decision was made to make it an integral part of the revised Program and the supporting Action Plan.

Effective financial control: In order to establish more effective, efficient, and cost-effective procedures, the Government of the Republic of Serbia adopted the Public Sector Internal Financial Control Strategy in the Republic of Serbia for the period 2017–2020 in May 2017, alongside the accompanying Action Plan 2017–2018. In April 2019, the Action Plan 2019–2020 was adopted. The SIGMA report verified the observed progress in this area and rated it at 3/5 in 2017, in comparison with 2/5 in 2015.¹⁸ The improvement was also confirmed by the European Commission's Progress Report for 2018, which in addition notes that the strategic approach to PIFC in the public sector needs to be further developed, placing the focus on managerial accountability. Further work is needed on the development of a strategic document that defines and explains the national approach to implementing managerial accountability, allocating resources, reporting on accomplishment of objectives, and financial management. At the same time, the necessary measures should be taken to ensure that the system for detecting irregularities is working in practice — both for EU funds and for the state budget.¹⁹

Public sector accounting: In accordance with the assessment and suggestions provided by SIGMA experts, moving to accrual accounting requires a long-term time frame and setting up an adequate baseline. In order to ensure a proper timetable of the accounting reform and to make sure that the reform's results are suitable, it is first necessary to strengthen the cash-based accounting system in accordance with IPSAS standards as the baseline. Accordingly, it is required to develop a new and detailed Action Plan that would postpone the implementation of accrual accounting and frame it in realistic terms. In light of this fact, it is necessary to place the full focus in the forthcoming period on the improvement and stability of the current cash-based accounting system rooted in IPSAS. Taking the above into account, as well as the current

¹⁷ The law was referred to the European Commission during January 2019 for opinion

¹⁸ *The Principles of Public Administration*, <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>, p. 132 and the 2018 Report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions; 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf)

¹⁹ The 2018 report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf)

state of play of the entire accounting system, it is clear that both the Treasury and the public funds beneficiaries need to modify activities and time frames within this measure.

Limited familiarity with IPSAS standards in Serbia might prove to be an obstacle to alignment with them. One potential long-term challenge is the capacity of employees to learn and implement new standards. Lack of qualified experts could be an obstacle to improving the accounting in the Republic of Serbia and for the entities under its control. That is why ongoing training and skill development are required for public accountants in the forthcoming period.

External control of public finances: The State Audit Institution (SAI) has been continuously improving the quality of its auditing performance. The Department for Audit Methodology and Quality Control has been strengthened, and a number of internal by-laws have been adopted. The SAI has established internal procedures to monitor the implementation of audit recommendations. The SAI's Annual Performance Report is considered and discussed by the relevant assembly committee. The SAI's activities in the forthcoming period will be oriented towards further, ongoing improvement of audit procedures, human resources management, and strengthening of the SAI's influence through improvement of systematic monitoring of the implementation of recommendations and through communication, which is at once in accordance with the SAI's Strategic Plan 2019–2023.

The remaining shortcoming in the PFM RP implementation within pillar five have been identified. The need was identified to further elaborate the control function of the National Assembly's Committee on Finance, Budget and Control of Public Funds Spending. Further work is planned to include Subcommittees and Committees sessions that will discuss SAI reports on completed audits in the presence of representatives of audited entities and, as needed, representatives of other relevant bodies, organisations, and institutions. Furthermore, in order to increase the level of skills of members of parliament and to enable them to better inspect the SAI's reports, an Expert Group is planned to be formed to provide expert support to members of parliament.

1.3. KEY OBJECTIVES OF THE PUBLIC FINANCIAL MANAGEMENT PROGRAM

Serbia manages its public finances in a way that ensures fiscal and macroeconomic stability, effective funding of national policy priorities, transparency of public finances, and efficient control over public spending.

The overall objective of the Public Financial Management Reform Program is to achieve a sustainable budget with reduced public debt relative to GDP through better financial management and control, as well as an improved audit process and better linking of budget planning to Government policies.

Public financial management measures have been defined with a view to enhancing transparency and accountability and strengthening cooperation between the Ministry of Finance, line ministries, and all other stakeholders, as well as to removing all limiting elements in the budget cycle.

In the long term, the purpose of the PFM RP is to achieve the following specific objectives:

- ✓ Strengthened mid-term budget planning system and capacities;
- ✓ Maintaining sufficient liquidity with a view to achieving effective management of public funds through balanced revenue collection, efficient public procurement, and adequate public debt management;
- ✓ Improved financial management and control and internal audit systems in accordance with international standards and principles²⁰ with a view to supporting the EU accession process;
- ✓ Effective financial control of EU funds with a view to meeting the criteria of full EU membership;
- ✓ Effective financial control of the Republic of Serbia's budget;
- ✓ Improved existing accounting capacities in the public sector;
- ✓ Improved management of public funds in a responsible, cost-effective, efficient, effective, and transparent manner.

The Action Plan for the Public Financial Management Reform Program for the period from July 2019 to December 2020 involves five broader areas of action/pillars:

- I. Planning and budgeting of public expenditures;
- II. Efficient and effective budget execution;
- III. Effective financial control;
- IV. Accounting in the public sector; and
- V. External control of public finances.

Specific goals, performance indicators, measures, activities, time frames, additional costs, and institutions responsible for implementation are defined for each pillar in the Action Plan. The composition of the measures — including the level of institutional and administrative capacities and their relevance in the context of EU accession — served as the baseline selection criteria. Special focus was placed on the sequence of reform measures and activities, their

Pillar	Purview
I. Planning and budgeting of public expenditures	Budget Department, Fiscal Risk Monitoring Department
II. Efficient and effective budget execution	Tax Administration, Customs Administration, Public Debt Administration, Tobacco Administration, Public Procurement Office
III. Effective financial control	Department — Central Harmonization Unit, Governmental Audit Office of EU Funds, Ministry of European Integration, HR Management Service, EU Funds Management Department, Anti-Fraud Coordination Service for combating irregularities and fraud in dealing with EU funds (AFCOS), Budget Inspection Department
IV. Accounting in the public sector	Treasury Administration
V. External control of public finances	State Audit Institution, National Assembly's Committee on Finance, State Budget and Control of Public Spending

timeline, careful formulation of indicators, and calculation of reform costs, with a view to ensuring a full and timely implementation of the Action Plan.

²⁰INTOSAI for IA and COSO for FMC

It is important to note that the Public Financial Management Reform Program was prepared in 2015, before the preparation and adoption of the Law on Planning System. For this reason, the Program has five pillars that are in sync with all stages of the budget cycle. Because of the fact that the Program was conceived in 2015, as well as because of its complexity and the usual structure expected in the Public Financial Management Reform Program, the document cannot be limited to merely three specific objectives. That is why it is necessary to understand and accept the specific character of the Program structure, in light of the fulfilment of the requirements prescribed by the Decree on the Methodology of Public Policy Management, Analysis of the Effects of Public Policies and Regulations, and Content of Specific Public Policy Documents.

2.1. PUBLIC EXPENDITURE PLANNING AND BUDGETING

CURRENT STATE OF PLAY AND PROGRESS IN THE PERIOD 2016–2018

Particularly significant progress in public financial reform has been made in improving multiannual Program budgeting, which was introduced in 2015 for all budget beneficiaries, providing the public with more understandable information on budget spending. In comparison with the traditional line budget, which allocates resources based on input elements, Program budgeting requires budget beneficiaries to submit — alongside these information — also information about their Programs, activities, and objectives, and accordingly make decisions on the allocation of funds, or budget resources. Program budgeting represents the allocation of budget resources in accordance with the performance or results of institutions. In this way, the budget becomes a more efficient tool for managing public finances.

The quality of Program budgeting in Serbia continues to increase every year, thanks to the fact that public funds beneficiaries receive adequate training and acquire more skills and experience in this field. Over the past two years, the Ministry of Finance has made significant efforts to improve the transparency and quality of the budget process. The Program budget was introduced in 2015 to cover 100% of budget beneficiaries in the budget of the Republic of Serbia and 100% of budget beneficiaries in the Decision on the budgets of local self-government units (LGUs)²¹. Budget beneficiaries' compliance with the Program Budget Preparation Guidelines, issued by the Ministry of Finance, is seeing growth — in 2015 it reached 61%, in 2016 82%, while in 2018 it reached 87% compliance. Furthermore, the percentage of local self-government units that comply with budget structures is growing compared with the percentage of 42.06% of the total number (170) of LGUs in 2015, 46.5% in 2016, and 61.53% in 2017, meaning 104 cities and municipalities.

²¹Measure 3: Further implementation of the Multiannual Program Budgeting at all levels of government

In addition to ongoing training of budget beneficiaries, the progress made in budgeting has been achieved thanks to the improvement of the Program Budget Preparation Guidelines²², as well as the improvement of Program structures and Program information. Moreover, the budgeting progress has been made thanks to the development of the Performance Monitoring and Reporting Methodology²³, the introduction of gender-sensitive budgeting in the process of preparing and adopting the 2017 budget of the Republic of Serbia, the development of the Budget Information System (BIS) for preparing a budget that is created to provide for easier and more efficient entering of financial plans, as well as to simplify the process of analysing and consolidating budget beneficiaries' financial plans. In addition, progress is also manifested in the implementation of training for Program budget preparation and reporting; the preparation and publishing of the Citizen's Guide to the Budget, which provides the public with sufficient information on the budget structure, as well as on how funds are collected and spent. Citizen's Guide to the Budget was published on the Ministry of Finance's official website for 2015, 2017, and 2018.²⁴ Transparency was increased through the introduction of the legal obligation on budget beneficiaries to publish information on the budget Program and performance reports.

Particularly significant improvement under this PFM reform pillar pertains to the start of performance-based reporting that launched in 2017. The obligation to monitor and report on Program performance was introduced with a view to demonstrating the effects of spent budget resources.²⁵

In order to improve the Government's public policy management system through the establishment of the legal and institutional framework, the National Assembly adopted the Law on Planning System of the Republic of Serbia on 19 April 2018²⁶. The law came into force on 28 April 2018 and its application started as of 29 October 2018. The law regulates the management of the public policy system and mid-term planning, and the types and contents of planning documents that are proposed, adopted, and implemented by the participants in the planning system in accordance with their scope. It also regulated the mutual alignment of planning documents, the procedure for establishing and implementing public policies and reporting obligations regarding the implementation of planning documents, as well as the appropriate application of the obligation to carry out an impact assessment for regulations and for evaluating the performance of these regulations.

Pursuant to Article 54a, paragraph 3, of the Pursuant to Article 54a, paragraph 3, of the Budget System Law, Decree on the Content, Preparation Method and Assessment, as well as on monitoring the implementation and reporting on capital projects implementation was adopted

²² The updated methodology for the preparation of the annual budget for 2017 was drafted in October 2016 and published on the Ministry of Finance's website. This is linked to the indicator monitoring the implementation of the IPA 2015 Sector Reform Contract for Sector Budget Support to PAR, <http://www.mfin.gov.rs/pages/article.php?id=13474>

²³ Program Performance Monitoring and Reporting Guide, http://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2018/Uputstvo%20za%20pracenje%20i%20izves-tavanje%20o%20ucinku_18_5_2017.pdf

²⁴ Public Budget Guide, <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2018/Gradjanski%20vodici%20kroz%20budzet%202018.pdf>

²⁵ Program Performance Monitoring and Reporting Guide, http://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2018/Uputstvo%20za%20pracenje%20i%20izves-tavanje%20o%20ucinku_18_5_2017.pdf

²⁶ Planning System Law, Official Gazette of RS, No 30/18 of 20 April 2018, <http://www.parlament.gov.rs/upload/archive/files/lat/pdf/zakoni/2018/2386-17%20lat.pdf>

in June 2017 (Official Gazette of RS, No 63/17). The Decree was passed with a view to improving and introducing a uniform mechanism pertaining to a more systematic review of the preparedness of capital projects for execution and their more efficient planning through a comprehensive process of cost-benefit analysis, selection, and monitoring in order to identify economically viable and strategically relevant projects. The adoption of the Decree established the key prerequisite for improved planning of capital projects, which is also recognised in the IMF Mission's Concluding Statement for 2017, Article IV Consultation.²⁷

PLANNED ACTIVITIES 2019–2020

In 2015, the Program budget was introduced for all budget beneficiaries, changing the budget planning methodology and budget execution reporting.

The introduction of the Program budget is a process that does not stop only at presenting the expenses of budget beneficiaries through specific Programs, Program activities, and projects — instead, it is a process that involves ongoing improvement of all components of the Program budget. The Program budget enables better management of the public administration's performance, greater accountability of budget beneficiaries, establishment of stronger links between annual budgets, prioritisation of expenditures, and implementation of public policies, as well as greater transparency of spending.

The development of Program performance monitoring and reporting represents an addition on the Program budget that enables budget beneficiaries to use information on achieved Program results and use it to improve the effectiveness and efficiency of public spending, as well as the quality of public services. The key issues that need to be addressed in the forthcoming period are how to conduct Program performance analyses, how to use the information in the Program Performance Report to make appropriate decisions about budget spending, and how to improve policy and budget planning through Program performance monitoring and reporting. **The IT budget system needs to be improved** by developing measures to monitor and report on the performance of budget Programs. In order to improve the quality of Program information — in particular objectives and indicators — and to improve reporting on budget execution, **administrative capacities need to be strengthened through training on Program budget preparation and performance reporting.**

In the course of 2019, the Serbian Government — in partnership with the World Bank, the European Union Delegation, and the IMF and close collaboration with other ministries, and based on best global practices — developed the uniform Capital Project Management Methodology, which served as basis for the adoption of the new and improved Decree on Capital Project Management²⁸, which provides for a uniform management mechanism and facilitates the coordination and selection of funding priorities and the securing of funding sources. In the first half of 2019, the Ministry of Finance launched a new organisational unit that handles capital project management. Furthermore, supporting Regulations will be adopted to closely regulate the functioning of new mechanisms in the area of capital project

²⁷ Serbia: Concluding Statement of the Mission for the 2017 Article IV Consultation and the Seventh Review under the Stand-By Arrangement (SBA), <http://www.imf.org/en/News/Articles/2017/07/05/mcs652017-serbia-concluding-statement-of-the-mission-for-the-2017-article-iv-consultation>

²⁸ Decree on Capital Project Management, <https://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/Uredba%20o%20upravljanju%20kapitalnim%20projektima.pdf>

management. In addition to the above activities, certification is underway for the new capital investment management information system PIMIS for capital project management.

2.2. ENSURING EFFICIENT AND EFFECTIVE BUDGET EXECUTION

CURRENT STATE OF PLAY AND PROGRESS IN THE PERIOD 2016–2018

For public finances to be managed efficiently and effectively, the spending of public funds should be timely and predictable. A number of factors have contributed to the declined efficiency of public financial management, such as fiscal constraints, outdated procedures, and lacking administrative capacities. Although steps have been taken in order to ensure a more efficient and effective management of public finances, the PFM RP tackles this issue in a systematic and comprehensive manner and provides guidelines for a more efficient and effective budget execution, which is achieved by:

- improving revenue collection;
- controlling the budget's spending side and managing cash;
- strengthening public debt management capacities; and
- further improving the legislative framework and procedures pertaining to public procurement.



Increasing government revenue is one of the most important measures under the fiscal consolidation programme launched by the Government of the Republic of Serbia in 2014, together with a broader programme of associated structural reforms. The fiscal consolidation programme has dramatically improved the fiscal balance and the overall macroeconomic performance. Fiscal deficits were reduced from 6.6% at the end of 2014 to 3.7% in 2015 and to only 1.3% in 2016. In 2017, Serbia saw a fiscal surplus equal to 1% of its annual GDP. The

2018 budget planned for a deficit of 0.6% of GDP, and the 2019 Draft Budget Law provides for a deficit of 0.4% of GDP.

The improved revenue collection and better control of taxpayers have produced tangible results, and this trend is expected to continue in the forthcoming period. Despite the 2017 target for voluntary tax collection having been set at 87%, the performance indicator table shows that this benchmark reached 96%. In the course of 2017, the Tax Administration Transformation Programme was revised and the Action Plan 2018–2023 was prepared. The objective of the Tax Administration Transformation Programme is to improve the organisational structure, business processes, and provision of services to taxpayers. Combined efforts were made in order to increase voluntary compliance with tax regulations through changing legislation, improving capacities and raising the level of understanding. The risk management system was improved and the integrated IT system continued to be developed, with a view to further enhancing electronic services for taxpayers.

The development of the Tax Administration — as a stable institution with a modern organisational structure and efficient tax management — is defined in the Tax Administration Transformation Plan through the delivery of three strategic goals:

1. Improving the efficiency and effectiveness of elementary business processes and increasing the level of tax collection;
2. Improving the quality of services and reducing the cost of tax compliance;
3. Establishing a modern infrastructure and working environment inside the organisation.

The Transformation Program Action Plan 2018–2023 and the Decision on the Tax Administration's primary and secondary activities were adopted on 5 December 2017²⁹, directing the Tax Administration's focus towards primary tax activities and the organisational units consolidation stage. Additional simplification and unified tax procedures — as well as improved operational activities to combat the shadow economy — are intended to contribute to reducing tax compliance costs, easier and more even-handed business conditions, and improving tax collection.

In order to establish a structured approach to the management of the Tax Administration of the Republic of Serbia, three Committees were formed that are now operational:

1. Committee on Tax Administration Management and Oversight,
2. Committee on Risk Management under the Compliance Plan, and
3. Committee on Transformation Program Implementation.

In August 2017, the Strategic Risk Division and the Taxpayer Services and Education Department were formalised. The number of organisational units of branches and local offices was reduced by 100 last year, from 178 to 78, while this year the number dropped to 37. By 1 July 2019, primary tax functions were consolidated into fewer organisational units, and the consolidation process is set to continue through 2023.

A separate department was launched within the Tax Administration to provide services to taxpayers. This shift from the 'traditional model' based on controlling regulatory compliance to a client-oriented approach is expected to facilitate, simplify, and cost-cut tax compliance for

²⁹ Government of RS Conclusion 05 No:021-12037/2017

taxpayers. In 2017, a counter called Your Tax Officer was launched in 37 branches, with the main purpose of providing assistance and services to taxpayers.

The first stage of consolidation and downsizing the branch network to 37 offices, accompanied by the separation of primary and secondary activities, has been completed, in accordance with the Tax Administration Transformation Program 2015–2020, the Tax Administration Transformation Program Action Plan 2018–2023, and the recommendations in the Accelerated Tax Administration Reform document from October 2018.

Three new departments were launched at the Tax Administration Headquarters: the Special Activities Department, the Tax Accounting Department, the Origin of Assets and Special Tax Department, as well as the Department for International Cooperation and Coordination of EU Integration. The functions of human and material resources, ICT, providing taxpayer services, and tax accounting will be carried out centrally with territorial distribution that is modelled on the organisation of primary and special activities.

An analysis of work procedures and standard operating procedures of tax inspectors is planned under the Transformation Program. This will allow for verifying whether their functions and prerogatives are clear, which will minimise arbitrary decisions³⁰. Furthermore, the preparation of the draft methodology handbook for documenting turnover by using fiscal cash registers has led to a decrease in the degree of arbitrary decisions. The Tax Compliance Plan for 2017 and 2018 has been prepared in accordance with the OECD compliance risk management model.

In its 2018 Progress Report, the European Commission concluded — within the framework of Chapter 16: Taxation — that the Republic of Serbia was moderately prepared in the area of taxation.

The Customs Administration (CA) is an important component of the PFM system and the revenue collection system, as a governing body under the Ministry of Finance. The modernisation of the Customs Administration is underway in a number of important areas, including risk management, improvement of anti-corruption measures, upgrading of the Customs Laboratory, as well as strengthening of capacities for setting up a management system for EU traditional own resources.

More specifically, since 2016 the Customs Administration has been monitoring the activity of improving anti-corruption measures through Chapter 23: Judiciary and Fundamental Rights, which was opened in July 2016. Corruption risk analysis of the legal framework of the customs system was carried out, and cooperation was established with the Academy of Criminalistic and Police Studies pertaining to training. A set of training courses was held for customs officers from the Internal Control Division on the topic “Customs Corruption Investigating Methods” with the support of the German international cooperation organisation GIZ and the Public Finance Reform project. In order to implement the activities in the Action Plan for Chapter 24: Justice, Freedom and Security, in December 2017, the Cooperation Agreement on preventing and combating corruption at the border was signed between the Public Prosecutor's Office, the Ministry of Internal Affairs, and the Ministry of Finance. In October 2018, the Ministry of Interior's Internal Control Department organised and held the Corruption Risk Analysis Training, which was also attended by an officer from the Customs Administration's Internal Control Division. The new legislation (Customs Service Law) provided the Customs Administration's Internal Control Division with new legal grounds for increasing its scope of

³⁰Checklist available at: <http://www.purs.gov.rs/aktuelnosti/Ostalo/3525/inspekcijski-nadzor---kontrolne-liste.html>

work and improving and strengthening capacities, especially through the training of officers. Strengthening integrity, anti-corruption policies, and preventive measures is part of the strategic commitment contained in the Customs Service Development Plan through 2020, which will be implemented through the development of administrative capacities and the promotion of the anti-corruption policy, which portrays a professional, ethical, and transparent customs service.

In 2017, plans were adopted for the development of the customs service through 2020: the RS Customs Service Development Plan 2017–2020 and the Action Plan for the implementation of the RS Customs Service Development Plan.³¹ In December 2018, the most important regulations for the functioning of the customs service were adopted — the Customs Law and the Customs Service Law³². The Customs Administration is one of several institutions responsible for the implementation of the Government's Integrated Border Management Strategy 2017–2020, which was adopted in February 2017. The Strategy's overall objective is an efficient and effective integrated border management with strengthening cooperation across the board and strengthening the administrative, infrastructural, and technical capacities of border departments.

The first specific objective of the Strategy pertains to border control, which will include the current risk analysis systems being strengthened, joint risk analyses being established, and anti-corruption measures continued. Some of the planned activities are the preparation and implementation of joint training in combating all forms of corrupt behaviour, the development of the Joint Action Plan for all border services to prevent employee corruption, the establishment of joint investigation teams to combat corruption at the border, etc.

In the course of 2018, the Task Force on monitoring and implementing the Strategy and Action Plan for integrated border management was formed, as were the Departmental Reform Agreement, Working Group for Joint Risk Analysis for all services, Sub-Groups at the regional level, and Working Group for training all services in the Integrated Border Management system.

The joint model of service risk analysis was adopted, providing for an exchange of early warning information and criminal intelligence information. After the multi-sectoral Working Group on Corruption Risk Assessment reviewed the contents of the Prevention Plan, the document containing the Corruption Prevention Plan was adopted for all institutions involved in integrated border management.

Furthermore, in 2015, the Customs Administration started implementing the new National Transit Procedure in accordance with the rules of the EU Common Transit Procedure. The application for the automatic risk assessment and control orientation ERIAN is used with a view to focusing controls on the biggest risks in transit³³. *In comparison with the previous risk management system, the new system has significantly better features, specifically because of the more accurate and adequate identification of high-risk shipments, as well as the way in*

³¹Republic of Serbia Customs Service Development Plan 2017–2020 and Action Plan for its implementation, <http://www.mfin.gov.rs/pages/article.php?id=13484>

³² Customs Service Law (Official Gazette of RS, No 95 of 8 December 2018), <https://www.mfin.gov.rs/pages/article.php?id=14153>

³³ ERIAN is an expert system module primarily intended to provide on-line evaluation of declarations processed in the declaration process system in accordance with the specifics of the risk (profile) model compiled by the risk analysts in ERIAN's central risk profile archive

which risk information is communicated. The implementation of ERIAN (risk analysis management system) is underway. The ERIAN system for the control of national transit (NT) and common transit (T1, T2, T-) procedures, implemented through the NCTS (New Computerized Transit System), has been operational since February 2016. In September 2017, the Customs Administration launched activities to create the conditions for the implementation of EU standards and procedures that pertain to the automated import and export system (AIS/AES), as well as to the customs decision management system. Through the EU's technical assistance, the Customs Administration will increase its administrative and operational capacities. Technical Assistance for Institutional Framework to Implement AIS/AES is a project scheduled to run through the end of 2019. The project, which introduces automated import and export systems, represents a precondition and foundation to integrate ERIAN with AIS&AES and associated control systems. Additional Protocol 5 on facilitating trade between CEFTA parties entered into force in 2018.

In December 2017, the project titled Creating Conditions for Capacity Building of the Laboratory of the Customs Administration of the Republic of Serbia was completed.

The project's results are recommendations that represent the starting point for all subsequent steps in the process of modernising the Customs Laboratory. Through the project Creating Conditions for Capacity Strengthening of the Customs Laboratory, the following was prepared: draft Action Plan with activities to be implemented in the future (legal framework of the Customs Laboratory, organisational and functional structure, required infrastructure, required procurement of equipment, and training of employees) and defining requirements for the Customs Laboratory's future premises.

In 2018, ten employee candidates from the Customs Laboratory successfully completed the training course where they learned about laboratory standard requirements (SRPS ISO/IEC 17025:2006).

In its 2018 Progress Report, the European Commission observed — within Chapter 29: Customs Union — that Serbia was well prepared in the area of customs union and that some progress had been made by simplifying some customs procedures. In the course of next year, Serbia should first and foremost further upgrade the customs processing system by incorporating risk management and further improve the customs department's IT system in order to enable its integration into the EU system.³⁴

In the previous period, the Customs Administration capacities were strengthened to participate in preparing the negotiating position for Chapter 33: Financial and Budgetary Provisions, specifically through a TAIEX workshop on Establishing the Traditional Own Resources System and a workshop demonstrating the experience of the Republic of Croatia in its process of adapting within the system's introduction after accession to the European Union that was organised with technical assistance provided by GIZ and experts from the Croatian Customs Administration. Furthermore, supported by the same assistance and expertise, the Customs Administration successfully completed the preparation of the Annexe to the Questionnaire pertaining to the assessment of the Republic of Serbia's ability to meet the administrative requirements concerning the EU's own resources. In 2018, the Customs Administration's

³⁴The 2018 report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf), p. 92

director general formed Technical Working Group in charge of performing the obligations set out in Chapter 33.

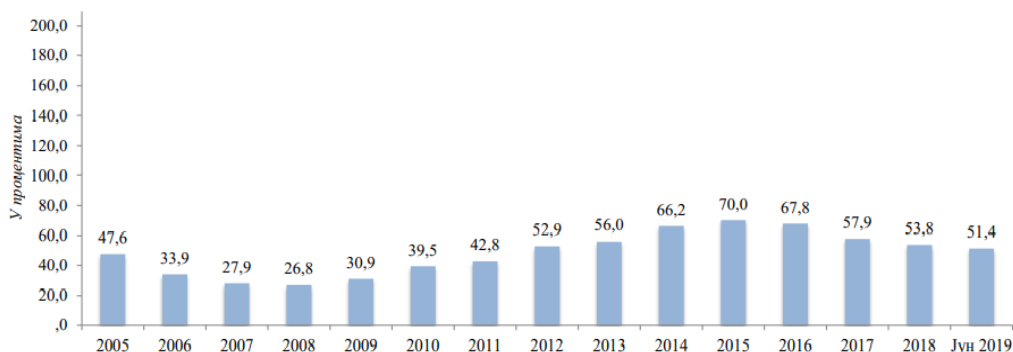
The long-term goal of maintaining a high level of budget revenue collection involves further development of the department, as well as long-term cooperation with the private sector. The importance of these activities is especially high in the area of customs policy, particularly if the significant increase in revenues collected by the customs department results from the department's improved performance (in 2018, 64.7% more funds were paid into the Serbian budget in comparison with 2013) . Another indicator of the Customs Administration's positive results could also be the increase in the share of customs duties in the Republic of Serbia's total allocated revenues (from 42.7% in 2016 to 49.9% in 2018). In 2018, the Customs Administration was one of the institutions that introduced the option of instant payment of duties. In the forthcoming period, the improvement of the process of securing customs debt is planned and further alignment with the best practices of the European Union's customs administrations.

The Tobacco Administration was established in 2005 by the Tobacco Law, as a body functioning within the Ministry of Finance. At the request of business entities, the Administration establishes whether the requirements are met for tobacco production and processing, as well as and import and export of tobacco and processed tobacco. The Administration is responsible for issuing licenses for performing these activities, keeping records pertaining to tobacco and processed tobacco production, processing, and marketing, as well as the production and marketing of tobacco products. The Tobacco Administration was not involved in the Public Financial Management Reform Program 2016–2020, which was adopted in 2015. However, taking into consideration the Administration's scope of work, the decision was made to make it an integral part of the revised Program and the supporting Action Plan. The details of upgrading administrative capacities and the establishing of new software solutions and their contribution to the PFM reform process are described below (activities planned for 2019–2020).

The Republic of Serbia's **public debt** trajectory has been reversed since 2016 and preliminary data shows that the central government's share of the public debt in GDP dropped to 51.4% in June 2019, which contributed to the overall stabilisation of public finances.

Учешће јавног дуга у бруто домаћем производу Републике Србије: централни ниво власти

Јавни дуг РС/БДП (%)	ГОДИНА														
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Јун 2019
	47,6	33,9	27,9	26,8	30,9	39,5	42,8	52,9	56,0	66,2	70,0	67,8	57,9	53,8	51,4



*У складу са ревидираним БДП подацима за период 2005-2017. које је објавио РЗС.

Debt-to-GDP ratio in the Republic of Serbia: Central government

The credit rating agency “Standard and Poor's” verified the Republic of Serbia’s credit rating as standing at BB, while the outlook improved from stable to positive, which means that the credit rating could be raised to BB+ over the next 12 months.

The positive outlook for improving the credit rating is also a reflection of the continued reduction in the public debt. Over the past few years, the Government has reversed the rising trajectory of the public debt. In 2017 alone, the debt-to-GDP ratio dropped by around ten percentage points. The trend of decreasing the debt-to-GDP ratio continued in 2018, and the share of central government debt in GDP at the end of June 2019 stood at 51.4%, which is about 16.4 percentage points less than in 2016.

The fiscal reforms have resulted in stable public finance, and further reduction of the public debt is expected to continue through the implementation of the initiated reforms. The main objectives for the forthcoming period include reducing the public debt below 50% of GDP.

<i>Performance indicators</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Annual cost of servicing the public debt (interest repayment) as a share of GDP.	2.9	2.8	2.5	2.1
Average maturity of dinar debt (years)	2.1	2.2	2.4	2.4

In order to continue the effective public debt management, the Public Debt Administration (PDA) has recognised the importance of continuous capacity strengthening through training and software development. Over the past three years, the Public Debt Administration’s

capacities have been improved by strengthening human resource capacities and learning from best practice experiences. The initial steps that have been taken pertain to introducing the new methodology for risk monitoring and public debt management software.

Since 2015, the legal framework, administrative capacities, and information systems have all been the focus of improvement efforts. A methodology fitting for conducting long-term public debt sustainability analyses is currently being developed. The implementation of the new methodology will further improve the PDA's performance, taking into account that the PDA is currently using standard MTDS and DSA³⁵ *debt analysis models*.

The development of public debt management software was completed. In 2018, the development of public debt management software was completed. Some shortcoming had been identified while using the software, and these are currently being addressed in order to make the solution fully functional. The introduction of the software will contribute to overcoming operational issues in the PDA's performance and improve its analytical capacities.

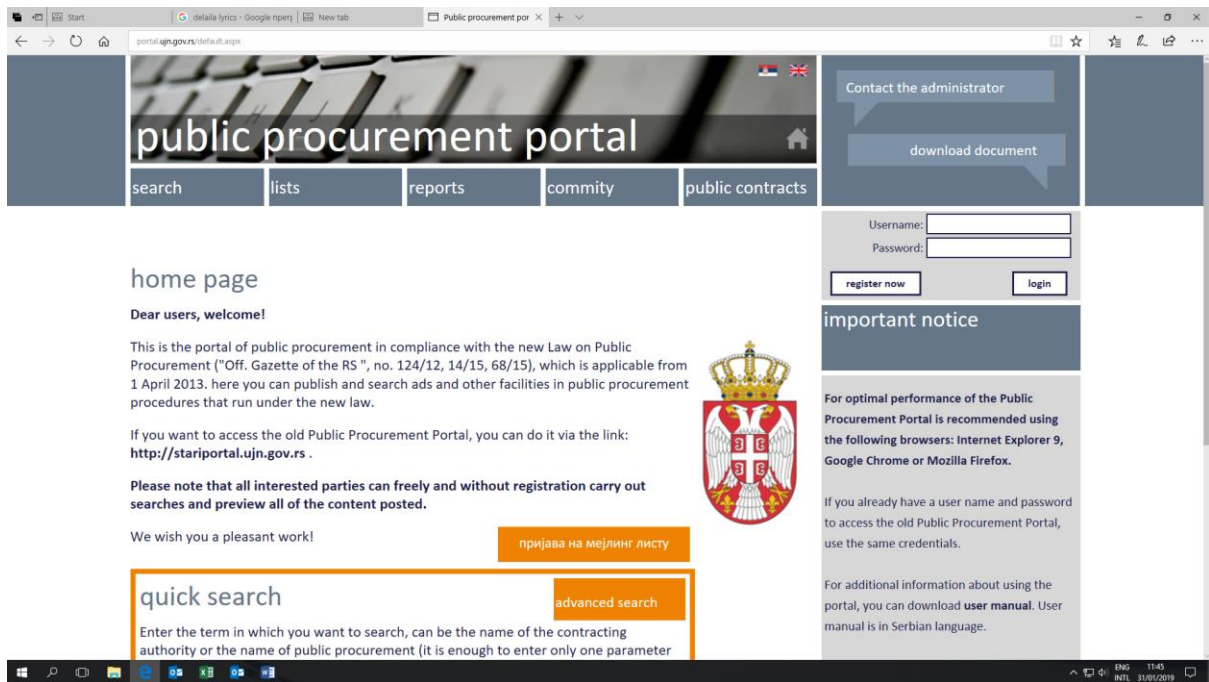
Another important step towards the further development of the local securities market is the introduction of a system of primary dealers. The Public Debt Administration is making — in partnership with the IMF — strong efforts to expand the local market and create benchmark emissions of government dinar bonds, as a prerequisite for introducing primary dealers. The IMF's recommendations provide for a phased approach to introducing primary dealers in dinar government bond auctions.

The Public Procurement Office was launched as a separate organisation with a mandate to establish a robust procurement system and develop procedures that will ensure efficient and transparent spending of public funds, thereby building on the Government's overall efforts to reduce corruption. The Public Procurement Development Strategy 2014–2018³⁶ served as an appropriate strategic framework for the development of the public procurement system in the previous period.

The Public Procurement Law, which entered into force on 1 April 2013, represents a major step towards bringing the public procurement system closer to international standards in the area and, more importantly, a step forward towards alignment with the EU Procurement Directive (2004/18). The law sets out the important goals of ensuring efficiency and effectiveness, competition and transparency, and preventing corruption and other misuse in the procurement process. Over the past two years, the development of primary and secondary legislation has resulted in an increase in transparency and efficiency of public procurement procedures. Partial harmonisation was carried out in 2015, and further alignment is expected with the adoption of the new Public Procurement Law in 2019. The transparency in public procurement planning was increased following the changes in the legislative framework adopted in 2015, through the introduction of the contracting authorities' obligation to publish public procurement plans on the Public Procurement Portal. The total number of contracting authorities that publish procurement plans on the Portal reached 90% in 2016, surpassing the targeted 85%, as initially planned by Program. In the first half of 2017, this percentage was 89%.

³⁵ Mid-term debt management strategy and debt sustainability analysis

³⁶Public Procurement Development Strategy in the Republic of Serbia 2014–2018 and Action Plan for the Implementation of the Public Procurement Development Strategy 2014–2015, adopted on 30 October 2014. Action Plan for the Implementation of the Public Procurement Development Strategy in the Republic of Serbia for 2018, which was adopted by the Conclusion of the Government of RS 05 No: 404-12966/2017 of 28 December 2017 (Official Gazette of RS, No 120/17)



Public Procurement Portal

Progress was made in increasing the technical capacities of the PPO aimed at more effective public procurement procedures. In 2016 and 2017, four training courses were held for more than 80 select individuals and decision makers³⁷. The number of certified public procurement officers increased³⁸. The training provided to public procurement officers, combined with other measures, resulted in the number of discontinued procedures dropping from 13% in 2014 to 10% in 2016, as well as in 2017.

The progress made so far in improving the overall public procurement system contributed to the opening of Chapter 5: Public Procurement in December 2016. The Public Procurement Office started drafting the Public Procurement Development Strategy in the Republic of Serbia for the period 2019–2023, which in one part covers electronic public procurement, all with a view to defining the focus of further development and creation of a modern and efficient public procurement system. Furthermore, the new Public Procurement Portal is currently under development — its full implementation expected as of July 2020 — and the website will provide users with more features than the current Portal, in accordance with the Draft Public Procurement Law and EU directives in this area. The new Portal will allow for e-bidding, e-contract awarding, e-auctions, dynamic procurement system, e-planning, e-complaints, and e-catalogue.

At the end of 2017, amendments to the Regulation on the **Budget Execution** System of the Republic of Serbia were adopted, and the new Budget Execution Information System (BEIS) was released on 1 January 2018, which created the conditions for incorporating new indirect budget beneficiaries (IBB) in the budget execution system.

³⁷ The main topics of training intended for specific persons and decision-makers included centralised public procurement and implementation of framework agreements, green procurement, negotiating forms and methods in the negotiated procedure, technical evaluation of bids, using the most cost-effective bid criteria, protection of rights in public procurement procedures, as well as issues related to the use of the Public Procurement Portal.

³⁸ Of the 2300 people originally planned to be certified by the end of 2017, 3762 received certificates, demonstrating an increase of 63% above the set target.

The financial planning for all DBBs and IBBs involved in the Republic's budget execution system has been improved, and relevant direct budget beneficiaries (DBBs) are now allowed to schedule and control the appropriations of their indirect beneficiaries. Consequently, cash flow planning has been improved through DBBs' ability to relocate funds — based on the needs of IBBs — from the appropriations of one indirect beneficiary to the appropriations of another indirect beneficiary, within the limits of the Appropriations Budget Law. In this way, DBBs are provided with improved control of budget execution plans and established quotas of their indirect beneficiaries, as well as of assumed commitments and performance of assumed commitments, which resulted in improved planning for all beneficiaries.

PLANNED ACTIVITIES 2019–2020

In the forthcoming period, when it comes to further improving the Tax Administration's performance, the basis used for the reform processes will be the Transformation Program for the period 2018–2023. Although this process is very complex and comprehensive, the PFM RP Action Plan for the period 2019–2020 defined some key activities that determine the successfulness of the overall performance improvement process.

By the end of the third quarter of 2019, the new organisational structure was established with separated core and non-core functions, with the consolidation process continuing until 2023. The special activities will be managed through a dedicated network of organisational units in the field. The special activities that are estimated to correspond more to other government bodies or departments will be transferred as soon as the conditions allow for it.

The Special Activities Department is responsible for administering and undertaking separate activities, specifically as follows: determining, controlling, and collecting taxes on the transfer of absolute rights, inheritance and gift taxes; determining and collecting taxes on the use, possession, and carrying of goods (weapons, vehicles); determining the market value of real estate; determining infringement of intellectual property rights, in particular rights to computer programs (software) and databases; oversight of the implementation of the Law on the Prevention of Money Laundering and the Financing of Terrorism; supervision of settlement of payment obligations in commercial transactions between business entities; forced collection and recovery of state administrative fees; enforcement of competition protection measures; as well as recovery of funds in case of their reduction or annulment by court decisions.

By the end of 2020, further strengthening is planned for strategic management, improvement and simplification of the Tax Administration's primary functions, and improvement of the organisational structure and business processes that result in more efficient provision of services to taxpayers.

One of the key challenges when it comes to improving the performance of the Tax Administration is related to launching or improvement of the IT system. **Automated data exchange with third parties is aimed at enhancing data analysis with a view to improving risk analysis.** In addition, information and communication technology (ICT) related to data exchange with EU countries (EIS) also needs to be introduced. One prerequisite for business process automation is the reengineering of business processes, as provided for by the World Bank's project. ICT systems and automation of data exchange and data warehousing need to be modernised, as already is planned for implementation.

The Customs Administration of the Republic of Serbia developed the Customs Service development plan for the period 2017–2020. The document represents the starting point for further improvement of the performance of the Customs Administration in the forthcoming period.

Strengthening integrity, anti-corruption policies, and preventative measures is part of Strategic Objective Six under the Customs Service Development Plan, set to be achieved through the development of administrative capacities and the promotion of the anti-corruption policy, which portrays a professional, ethical, and transparent customs service.

Improving risk management is another one of the key development segments in the forthcoming period. The development also involves linking the ERIAN system with certain records, which would contribute to a better functioning of the risk analysis system until ERIAN is fully integrated with automated import and export systems. **By the end of 2020, all activities should be completed in relation to creating conditions for the modernisation of the Customs Laboratory and activities pertaining to capacity strengthening of the department in charge of meeting the obligations under Chapter 33: Financial and Budgetary Provisions.** In the forthcoming period, the Customs Administration, in partnership with the Ministry, will be initiating activities to analyse the legal framework and administrative capacities for full implementation of EU regulations on Traditional Own Resources, as well as activities to conduct specific training courses for customs officers in managing the EU's Traditional Own Resources. This will be the first step in strengthening the Customs Administration's capacities for managing the EU's Traditional Own Resources. **The long-term objective of maintaining a high level of customs duties collection, in addition to the above activities in the forthcoming period, also involves improving the process of securing the customs debt.**

The Tobacco Administration took part in the RS Government's project titled "Simplification of Administrative Procedures and Regulation": E-Paper, coordinated by the Public Policy Secretariat and aimed at enhancing the business environment and creating an encouraging environment for further investments in the development of a competitive economy through the reduction of administrative costs. The Action Plan for the Implementation of the Simplification of Administrative Procedures and e-Paper Regulation 2019–2020, under Step 1.3: Optimisation of administrative procedures, provides for optimising 39 and digitising five administrative procedures implemented by the Tobacco Administration.

In order to deliver these activities, a new uniform registers system needs to be established in order to allow the linking of all registers and records kept by the Tobacco Administration. Creating a uniform system of registers — a software solution — would enable the compiling of a database and linking of all registers and records kept by the Tobacco Administration, which is **a key prerequisite for the full digitalisation of administrative procedures**, which in turn would improve the quality of delivering public services and reduce the time required to make decisions.

Furthermore, establishing a uniform system of registers would enable also data exchange with other state bodies, not only in order to act more efficiently on the requests of business entities, but also in order to more effectively inspect their business operations and to combat illicit tobacco and tobacco products trade.

In order to adequately implement the new registration system for keeping registers and records, it is necessary to organise trainings and workshops for employees at the Tobacco Administration and other involved institutions. **The digitisation of procedures results in**

reducing the time required for licensing in the Tobacco Administration as an improvement in the quality of public service delivery.

In order to raise awareness among business entities that use the Tobacco Administration's services, it is necessary to design informative sessions, meetings, video tutorials, handbooks, and the like in order to demonstrate the new information system and the new opportunities for better cooperation of business entities with the state administration. The end result would be a more transparent and efficient collection of revenue thanks to the simplified licensing process.

With a view to further strengthening the capacities of the **Public Debt Administration**, there are plans for skills development in the area of cost risk analysis within the Debt Management Strategy. It is crucial that employees complete appropriate training, including the use of electronic tools. **There are plans to improve the quality of the strategic document and the annual borrowing plan aimed at ensuring smooth implementation throughout the year.** Furthermore, the need was recognised to consider using alternative tools that are most in line with current capacities. These activities are aimed at reaching an acceptable level of risk through the preparation of the Public Debt Management Strategy, based on a cost and risk analysis.

Plans for the forthcoming period include establishing the Primary Dealer System and further developing the domestic bond market. This will be achieved by precisely defining obligations and alignment of the required legal framework. An appropriate monitoring system will be put in place to ensure smooth implementation of agreed obligations by identifying measures to improve the functioning and transparency of the secondary market for government securities.

The need to further strengthen IT systems has also been recognised, especially in the area of business intelligence tools and the second stage of risk analysis tools development.

According to the Public Procurement Development Strategy, full alignment with the EU acquis will be achieved by adopting the new Public Procurement Law and planned secondary legislation by the end of 2020. As a result, public procurement notices will be fully aligned with EU directives³⁹. **Tender documentation models** are of great importance for contracting authorities in procurement preparation and significantly reduce the number of irregularities in the procedure. In light of this, the Public Procurement Office prepared and published on its website a number of tender documentation models and instructions, in order to ensure better application of public procurement laws and rules. The same will be done after the adoption of the new Public Procurement Law.

Framework agreements are agreements between one or more contracting authorities and one or more economic operators for the purpose of establishing the conditions governing the contracts to be awarded over a given period. As a result, procurement costs and time spent in the procurement process are cut, taking into account the reduced administrative burden and enabling contractors to save time in the event of those procurements that are expected to be repeated every year. Such models of Framework Agreements, for some public procurement

³⁹ The types and content of PP notices, as well as the means of their publication, are laid down in several EU Directives (2014/23, 2014/24, 2014/25, 2009/81, and the Remedies Directives) and in Regulation (EU) 2015/1986 of 11 November 2015.

entities, will be prepared in accordance with the time frame for the adoption of the new Public Procurement Law.

The significance of evaluating public procurement value is great and represents one of the preconditions for obtaining the best value for money. The estimated value defines the type of procurement procedure, the manner of notice publication and determines the contracting authority's obligation to adopt an internal plan for preventing corruption in public procurement. For this purpose, the Methodology for determining the estimated value of public procurement was developed with the support of the GIZ project Support to Further Improvement of the Public Procurement System in the Republic of Serbia. Similarly, in order to achieve the most appropriate combination of cost, quality, and sustainability to meet contracting authorities' requirements, it is required to consider the entire life cycle of a product until the end of its use period. Environmental procurement policies are aimed at procuring products and services that are environmentally friendly. Consequently, the applicable law lays down the principles of environmental protection and energy efficiency as some of the basic principles of public procurement. For this purpose, Lifecycle Guidelines have been developed. **With a view to further promoting green procurement**, there are plans to conduct an analysis of the current state of play in this area in order to establish whether and to what extent the RSCA (Republic of Serbia Contracting Authority) takes into consideration energy-saving and environmental criteria when launching public procurement procedures and what are the main obstacles to the procurement of green products or services. Based on the analysis results, guidelines will be prepared for the RSCA and economic operators containing recommendations and best practices for green procurement. In addition, a model of standard environmental technical specifications for specific products will be prepared as part of the guidelines.

2.3. EFFECTIVE FINANCIAL CONTROL

CURRENT STATE OF PLAY AND PROGRESS IN THE PERIOD 2016–2018

Effective financial control represents a key reform step in establishing budgetary discipline and increasing accountability in public funds management. For an effective implementation of the reform in this area, improvement is key for three subareas: 1. Public sector internal financial control (PIFC); 2. Further strengthening of the legislative framework and institutional and operational capacities of the Governmental Audit Office for auditing EU funds management system; and 3. Irregularities management, coordination and cooperation in combating fraud and protecting the EU's financial interests and Serbia's national interests.

Although internal control and internal audit are the foundation and basic level of financial control, the reform of this area is not an isolated technical reform. It is part of the broader public administration reform and changes in the budgetary system and represents an integral part of the system for indirect management of the EU's pre-accession instrument, which needs to be incorporated as much as possible into a comprehensive system of internal financial control in the public sector.

During the three-year Program implementation period, the following subareas and the achieved success are the results of efforts made by — in addition to the Ministry of Finance's Central Harmonization Unit (CHU) — the Anti-Fraud Coordination Service for combating irregularities and

fraud in handling EU funds (AFCOS), the Budget Inspection Department (BID) of the MF,⁴⁰ as well as the Governmental Audit Office of EU Funds (GAO, hereinafter referred to as Office). The progress of this reform pillar, in addition to the above, depends directly on a number of public funds beneficiaries (PFBs).

The implementation of activities defined under the Public Sector Internal Financial Control Development Strategy of the RS (PIFC Strategy) for the period 2017–2020⁴¹ and the Strategy for Combating Irregularities and Fraud in Handling EU Funds in the RS for the period 2017–2020⁴² (hereinafter referred to as AFCOS Strategy) with accompanying Action Plans is crucial to further advancement of the PFM RP reform measures.

*The progress in reforming the area of effective financial control is also supported by observations in the EC's 2018 and 2019 Progress Report on Serbia, which in Chapter 32: Financial Supervision notes that some progress has been made in internal financial control in the public sector. Furthermore, it states that additional efforts are required to address managerial accountability and strengthen internal control and internal audit.*⁴³ *As for issues concerning Chapter 22: Regional Policy and Coordination of Structural Instruments and parts of financial management, control, and audit, the report underlines that national systems have been additionally developed in order to comply with the requirements of decentralised/indirect management of IPA funds. The head of the Audit Authority was appointed and the institution's capacities were strengthened.*

Improvement of internal financial control in the public sector

The improvement of this subarea can be considered through three aspects:

- improvement of the strategic and legislative framework of PIFC;
- improvement of the implementation of financial management and control (FMC); and
- support for the introduction and implementation of the internal audit function (IA).

In December 2018, as the proponent of all reform steps in this subarea aiming to implement them, the CHU established a new organisational structure⁴⁴ (below is a diagram charting out the CHU's organisational structure).

⁴⁰ The new Regulation on Internal Organisation and Systematisation of Jobs of the Ministry of Finance of December 2018 removes the mandate of the Public Funds Control Department and establishes two downsized organisational units — the Budget Inspection Department and the Anti-Fraud Coordination Service for combating irregularities and fraud in handling EU funds (AFCOS)

⁴¹ Public Sector Internal Financial Control Development Strategy in the Republic of Serbia for the Period 2017–2020, <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Strategija%20razvoja%202017-2020.pdf>

⁴² Strategy for Combating Irregularities and Fraud in Handling EU Funds in the Republic of Serbia for the period 2017–2020, <http://www.mfin.gov.rs/UserFiles/File/strategije/Strategija%20za%20suzbijanje%20nepravilnosti%20i%20prev%20ara%20u%20postupanju%20sa%20finansijskim%20sredstvima%20EU.pdf>

⁴³ The Commission's Staff Working Document, Republic of Serbia, 2019 Report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2019 Communication on EU Enlargement Policy, http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/20190529-serbia-report_SR_-_REVIDIRANO.pdf

⁴⁴ The new Regulation on Internal Organisation and Systematisation of Jobs of the MF from December 2018 reorganised the CHU with 19 classified and 11 filled positions. The vacancies are currently being filled.

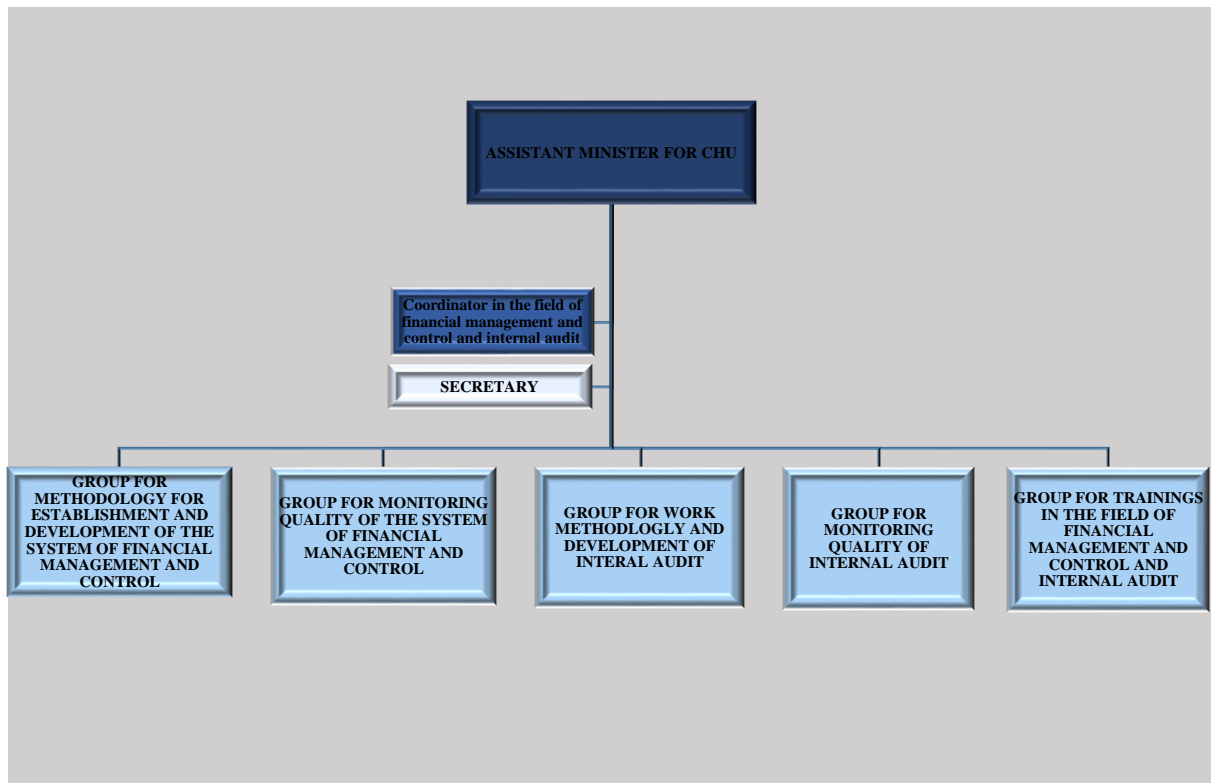


Diagram: Organisational structure of the CHU

The biggest progress was made with the adoption of the strategic framework, the PIFC Strategy 2017–2020, in May 2017, with the accompanying one-year Action Plan. In the course of 2018, the new Action Plan was being prepared for the period 2019–2020, and it was adopted in April 2019.

In the area of improving the **legislative framework** in FMC, the CHU teamed up with its twinning partner to develop and publish on its website:

- Managerial Accountability Guidelines⁴⁵, with the idea to help beneficiaries of public funds to correctly and fully understand the concept of managerial accountability and to enable the establishment and development of this concept in practice, in accordance with the regulations and organisational structure of beneficiaries, in order to achieve the organisation’s objectives as effectively as possible;
- Self-Assessment Questionnaire on Managerial Accountability⁴⁶, which is a tool for beneficiaries of public funds to examine the situation in this area and provide guidance for further improvement, and
- Risk Management Strategy Model⁴⁷, while the Risk Management Guidelines have been updated⁴⁸.

⁴⁵ Managerial Accountability Guidelines, <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Smernice-o-upravljackoj-odgovornosti.pdf>

⁴⁶ Exercise: Am I a good manager? <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Upravljacka%20odgovornost%20Upitnik.pdf>

⁴⁷ Risk Management Strategy, <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Model%20Strategije%20upravljanja%20rizicima.pdf>

⁴⁸ Risk Management Guidelines, <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/Smernice%20za%20upravljanje%20rizicima.pdf>

The Budget System Law of 8 December 2018 introduced a definition of irregularities in order to further elaborate the concept of irregularities management. In March 2019, the Regulation on the Professional Development of Certified Internal Auditors in the Public Sector was adopted. Furthermore, the Financial Management and Control Handbook was improved, as were the draft amendments to the Regulation that governs the area of financial management and control⁴⁹, specifically in the segment of further elaboration of managerial accountability with the PFB, irregularities management, as well as the option of mandatory signing and submission of the Internal Control Statement by the PFB head.

Three Working Groups were formed: the PIFC Working Group (in charge of monitoring the implementation of the PIFC Strategy Action Plan) and the FMC and IA Working Group (in charge of coordinating the cross-sectoral approach to FMC and IA within the MF) — both formed during 2017; while the PIFC Coordination Group was formed at the end of 2018 within the Public Administration Reform Council, with a view to intensifying coordination and cooperation with institutions that are key to this area — MPALSG, PPS, MF's Budget Department, Public Procurement Office, Ministry of Justice, and Ministry of Economy.

Joined by its twinning partner, the CHU is implementing a Pilot Project that is centred around managerial accountability with institutions in charge of regulations that govern crucial components of managerial accountability — MF, MPALSG, and PPS.⁵⁰ *The pilot project will identify and develop examples of good practice, produce materials (methodologies and guidelines), and identify weaknesses in the current and planned legislation and practices, which will be addressed according to plan. The CHU's strategic documents reviewed the quality of IA performance against the SIGMA recommendations — in ten ministries in 2016 and eight ministries and three compulsory social security organisations in 2017, which also represents preparatory work to amend the legislation in order to control IA's quality in accordance with internal audit standards. The individual annual IA performance review in nine PFB institutions, launched at the end of 2018, was brought to its end in early 2019.*

Specific software has been developed and tested for the purpose of collecting annual reports of public funds beneficiaries (PFB) using an online approach and aligned with the operational needs for analysis and preparation of consolidated annual reports. In the course of 2018, a software performance test phase was conducted for around 200 PFBs, identifying some of its shortcomings, and addressing the identified issues is currently underway. The analytical approach and content of the 2017 Consolidated Annual Report were improved in partnership with SIGMA experts.⁵¹

At the end of 2017, the Gap Analysis was produced showing a cross-section of the situation in FMC and IA in the public sector, also implemented through a twinning project and containing recommendations to overcome the identified weaknesses and improve the PIFC system.

The CHU conducted five-day basic training courses on FMC over twelve cycles for 727 participants, using advanced training materials; five trainings were held in local self-government units (Kragujevac, Niš, Subotica, Kruševac; municipality of Bečej). Support to

⁴⁹ Financial Management and Control Handbook, <https://www.mfin.gov.rs/UserFiles/File/CJH/2019/FUK%20prirucnik%20Compressed.pdf>

⁵⁰ The National Employment Service is also involved in the Pilot because of its specific structure and size, and as an example of good practice.

⁵¹ The 2016 RS PIFC Situation Report was adopted in September 2017. The 2017 consolidated annual report on the state of play in PIFC in the Republic of Serbia was adopted in September 2018. The CHU will continue to improve its reporting system with the support of SIGMA.

PFB and FMC managers at all government levels was provided through 16- day-workshops and trainings attended by around 450 participants. As part of the most recent classification of the MF in December 2018, a special group was formed within the CHU to focus on the quality of the FMC system.

The Budget System Law stipulates that functionally independent and decentralised IA is obligatory for all PFB institutions. IA was established in all 18 ministries and three compulsory social security funds. At the level of territorial autonomy units and local self-governments, the IA function was established at 100 PFBs, with 204 classified and 154 filled internal auditors positions⁵². The process of filling internal auditors roles at ministries is under close monitoring by the CHU. With the support of the twinning project, in 2018 the draft ‘Guidelines for establishing audit committees and joint internal audit units within small PFBs’ was prepared.

By the end of 2018, a total of 413 internal auditors had earned the title of Certified Public Internal Auditor. In October 2018, the CHU initiated the process of transferring training for FMC and IA to the National Academy of Public Administration (NAPA). At the end of 2018, the CHU prepared contributions for the Continuing Professional Development Program, during which in 2019, defined as the zero year of NAPA training implementation, five days of FMC training will be conducted, in addition to theoretical and practical training for obtaining certification for conducting internal audits in the public sector. In addition to the aforementioned training, the CHU prepared within the NAPA shorter trainings for managers across-the-board, which will encompass the concept of managerial accountability, in addition to standard FMC and IA topics. The process of relocating training is still underway and, considering that it involves changing the legal framework and strengthening capacities, it is expected to complete in the subsequent strategic period.

In the previous period, the challenges encountered by the CHU support the fact that the overall strengthening of the CHU as a driver of change must be widely recognised by the highest levels of management, which is why the CHU’s last classification created the opportunity to strengthen its capacities to a significant extent. For the area of PIFC, it is essential to understand the importance of internal controls, first and foremost by top management at public sector institutions in Serbia. The training needs in PIFC are still extensive and further activities are required to organise trainings, improve e-learning materials, tailor the training for FMC for public funds beneficiaries at central and local government levels, and organise and participate in conferences. In the area of managerial accountability, a permanent challenge is the fact that the regulations governing this area are generally not within the purview of the Ministry of Finance. The vertical component of managerial accountability is particularly complex and difficult to coordinate. For this reason, the CHU is making special efforts to ensure successful coordination with the institutions and units that are crucial to creating regulations in this area.

Further strengthening of the legislative framework and institutional and operational capacities of the Governmental Audit Office for auditing EU funds management system.

The Governmental Audit Office of EU Funds implemented all the planned reform activities within the PFM RP AP, except for the adoption of the legislative framework for the re-institutionalisation of the Office. Although the amended Draft Legal Framework for Reinstitutionalisation was prepared in December 2017, the final stage of the document’s adoption was postponed because of the lack of institutional and economic justification for

⁵² 2017 CAR data

changing the organisational form considering it requires additional budget resources. The law was proposed primarily by the MPALSG, after which the MEI took over the proposal.

The organisational, technical, and administrative capacities of the Office were also improved in accordance with the requirements of the European Commission (EC), which increased the functionality for carrying out audit activities. In line with the recommendations of the most recent workload analysis, the Office hired the appropriate number of competent civil servants. On 31 December 2018, the Office had 27 employees, of whom 24 were under permanent employment and three were under contract.

The Governmental Audit Office started 2019 with 23 auditors, 13 of whom are certified public sector internal auditors. By 8 May 2019, after a significant employee outflow, the Office was left by two certified public sector internal auditors and four audit advisers. Experienced key officers remained with the Office, which means that the corporate knowledge and business continuity were maintained, while retaining key personnel and institutional memory.

The Government of the Republic of Serbia approved the new maximum number of employees at the Office — which is now 33 — in line with the current analytical job evaluation. The Office prepared the new Regulation on Internal Organisation and Classification of Jobs and referred it to relevant Government bodies to request their opinions. After the approval of the Government of the Republic of Serbia, the Office will be able to initiate the recruitment process in order to achieve the target value of the Office's full capacity for ongoing needs, in line with the public administration reform and amendments to the current law on civil servants, while maintaining fiscal consolidation. With a view to increasing performance efficiency and effectiveness, the Office introduced AuditDoc at the end of 2018, with the support of the EU.

Improving irregularities management, coordination, and cooperation in combating fraud and protecting the EU's financial interests

Irregularity management, coordination, and cooperation in combating fraud in EU funds management are relevant and important both for the interests of the Republic of Serbia and for those of the European Union. In the previous period, as a reform activity planned under the PFM RP AP 2016–2020, the SIGMA analysis was conducted titled Streamlining the Operation of the Budget Inspection Department and the Anti-Fraud Coordination Service for combating irregularities and fraud in handling EU funds (AFCOS) in order to evaluate the operational rationalisation possibilities for the two units, under a single governance structure within the existing legislation.

The SIGMA report in the section “Conclusions and Framework Roadmap” identifies integrating the AFCOS with the Budget Inspection Department as an unfavourable option until Serbia joins the EU, because the AFCOS will have specialised knowledge of EU requirements and systems — as well as language skills — that the employees of the Budget Inspection Department do not. The current system and experience gained during the candidate status will serve as basis for the AFCOS’s further development in Serbia and will at the same time ensure the protection of the Union's financial interests and the fight against fraud, corruption, and any other illegal activities that affect those interests. Until the moment the country joins the EU, the AFCOS will be implementing the Action Plan for the AFCOS Strategy, and the Budget Inspection Department will fully implement a system that is in compliance with public internal financial control standards. Both units establish working methodologies and can establish shared practices in the areas of information exchange and collaboration when addressing system shortcomings.

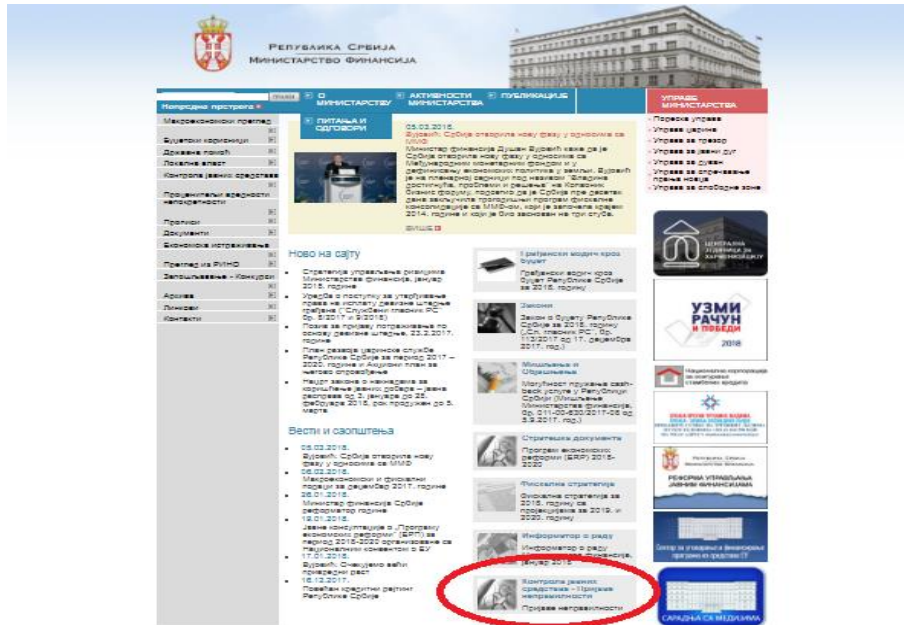
Organisational units of the Ministry of Finance centred around this area were independent at first, then from 2016 to 2018, they were merged under the MF's Public Funds Control Department, and as of late 2018 they regained their independence with the forming of the standalone Budget Inspection Department (BID) and the Anti-Fraud Coordination Service for combating irregularities and fraud in handling EU funds (AFCOS), which reports directly to the Minister for Finance.⁵³ This institutional positioning provided the AFCOS with the optimal level of functional independence, which ensured smooth performance of operational tasks. The AFCOS is made up of three groups — Data Analysis and Risk Management Group, Reported Irregularities Group, and Support Group — with ten classified roles. At the end of 2018, a total of five officers were employed at the Anti-Fraud Coordination Service for combating irregularities and fraud in handling EU funds.

In accordance with the Budget System Law,⁵⁴ the AFCOS performs 'the coordination of activities in combating irregularities and fraud in handling European Union funds, supporting the network for combating irregularities and fraud, coordinating legal, operational, and technical collaboration with the European Anti-Fraud Office and other relevant bodies and services of the European Commission, as well as the MF's administrative checks of reported irregularities in handling European Union funds. The Ministry refers its annual activity report to the Government, which further refers it to the National Assembly by 31 March of the current year for the previous budget year.

As of the start of January 2017, the MF's official website offers the option of receiving reports of irregularities in handling EU funds. This simplifies the reporting process and provides an opportunity for anyone with any information about irregularities in handling EU funds to forward it, either under their name or anonymously.

⁵³ The Regulation on Internal Organisation and Classification of Jobs at the Ministry of Finance of 19 December 2018 introduced the Anti-Fraud Coordination Service for combating irregularities and fraud in handling EU funds (AFCOS) as an organisational unit that is outside of departments, secretariats, and cabinets, under the direct supervision of the Minister for Finance.

⁵⁴ Budget System Law (Official Gazette of the RS, No 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 — corr., 108/13, 142/14, 68/15 — as amended, 103/15, 99/16, 113/17, and 95/18)



Picture: Home page of the Ministry of Finance website with a separate section for reporting irregularities <http://www.mfin.gov.rs/pages/article.php?id=12886>

On 10 September 2015, the Government of the RS adopted the Decision on establishing the Network for Combating Irregularities and Fraud in Handling EU Funds.⁵⁵ The Network represents a non-permanent working body of the Government that meets as needed and at least once every two months. It was established in order to prevent irregularities and fraud in handling EU funds while the EU is providing financial assistance to the Republic of Serbia for Programs funded through 2020. The Network's members are appointed representatives of the following bodies and institutions:

- Ministry of Finance (EU Funds Management Department, Department for Contracting and Financing of EU Funded Programs, Budget Inspection Department, Tax Administration, Treasury Administration, Administration for the Prevention of Money Laundering, and Customs Administration);
- Ministry of Interior;
- Ministry of Justice;
- Ministry of European Integration;
- Ministry of Agriculture, Forestry and Water Management;
- Public Prosecutor's Office;
- State Audit Institution;
- Anti-Corruption Agency; and
- Governmental Audit Office of EU Funds.

In 2018, the cooperation with the European Anti-Fraud Office (OLAF) continued, involving the exchange of information on identified irregularities and suspected fraud in the use of EU funds, coordination, and providing support to national institutions and OLAF inspectors in conducting investigations on the territory of the Republic of Serbia.

The exchange of information with OLAF also includes information on monitoring the progress of investigations that are conducted by the relevant institutions of the Republic of Serbia. In the

⁵⁵ Official Gazette of RS, corrections — No 78/15, 43/17 of 5 May 2017, 74/18 of 5 October 2018.

course of 2018, two regular meetings with OLAF took place, on 19 April 2018 in Brussels and 5–6 June 2018 in Belgrade. As of August 2018, the AFCOS launched the option of reporting directly on identified irregularities and suspected fraud in handling EU funds through the Irregularity Management System (IMS) of the European Commission and OLAF. These information are updated regularly.

Furthermore, the AFCOS submits progress reports under Chapter 32: Financial Control by updating the monitoring table, as well as through regular annual meetings of the Monitoring Mission.

The AFCOS reports on its performance to the Government and the National Assembly through the Annual Report on the implementation of the objectives and activities in the Strategy for Combating Irregularities and Fraud in Handling European Union Funds in the Republic of Serbia for the period 2017–2020 and the Annual Report on the activities implemented to combat irregularities and fraud in handling EU funds in the Republic of Serbia (available on the official website of the Ministry of Finance).

The appropriate legislative framework was established for budget inspection that is in line with internal financial control in the public sector. In the past period, the functioning of the budget inspection of the Ministry of Finance has been characterised by limited human and technical resources, outflow of staff, difficulties in securing new quality staff, and lack of incentives for potential expert staff who would be employed by the budget inspection department, which is also recognised in the MF's Vertical Functional Analysis, conducted by the World Bank in 2016. For these reasons, the Regulation on Internal Organisation and Systematisation of Jobs adopted in December 2018 classified a total of 40 positions in the newly formed Budget Inspection Department, as opposed to the previous Regulation, which classified a total of 23 positions. The significant increase in the number of employees is expected to further influence the positive trend of identifying irregularities and contribute to establishing legality in material and financial operations and dedicated and legal use of budget funds.

Right now, the Budget Inspection Department operations are performed under two divisions: Budget Inspection Division and Division for Norms, Study and Analytics and Risk Assessment and Management. The organisational structure was modified in order to increase the functionality and efficiency of budget inspection.

Furthermore, the Regulation on the operations, authorisations, and insignia of the budget inspection was adopted at the end of October 2017.⁵⁶ For the purpose of functional strengthening of the budget inspection, November 2018 saw the adoption of the Regulation on the special components of risk assessment, the frequency of carrying out inspections and/or controls based on risk assessment, and the special components of the Programs of inspection supervision and control within the purview of the Budget Inspection Department.

⁵⁶ Official Gazette of RS, No 93 of 16 October 2017

PLANNED ACTIVITIES 2019–2020

Taking into consideration the RS Government's priorities, as well as international commitments in this area, some of the reform objectives defined in 2015 have been improved through the following set of measures:

Improved implementation of financial management and control and further development of the internal audit function in accordance with international standards and principles

The CHU, as a strategic driver of the subarea, focused its activities for the forthcoming period on: **Introducing quality control in financial management and improving the reviewing of the quality of internal audit of public funds beneficiaries** — which, as the end result, should enable enhanced assessment of the functioning of FMC and IA systems used by PFBs and thereby represent the most significant lever for further improving the quality of FMC and IA in Serbia. Quality control in FMC through on-the-spot inspections is an entirely new function that is just being established based on the Guidelines prepared by SIGMA. Until the end of the PFM RP AP for the period 2019–2020, the CHU will be able to start performing these checks after the preparatory steps (development of methodology, internal procedures, verification tools, plan, report model, etc.). Further development of this function, which would include a possible analysis of the implementation of the CHU recommendations and evaluation and further improvement of the function itself, will be taking place in the next strategic period. In addition, the area of quality control in IA will be further improved. By the end of 2019, there are plans for the adoption of the Regulation that should regulate the quality control of IA performance according to the collegial model. Two specialised internal units have been singled out within the CHU to address these issues — one responsible for reviewing the FMC system quality and the other for monitoring the IA performance.

Preparing the Irregularity Management Guidelines for all PFBs so that they can formulate their own irregularity management procedures. The CHU, as part of the latest amendment to the Budget System Law, introduced the definition of irregularities⁵⁷, which it will first include as a concept of managing irregularities in the FMC Regulation, consequently imposing the obligation on PFBs to report irregularities. The CHU will develop a methodology and guidelines with irregularities management tools for all public funds beneficiaries. Reporting on irregularities will become an integral part of the annual consolidated report that is submitted to the CHU by beneficiaries.

Improving the quality of annual consolidated reports, taking into account the SAI's recommendations on internal audit and financial management and control. When conducting audits with PFBs, the SAI gains valuable insight into the state of play in internal control in the field. In addition, the SAI represents a significant lever for the development of the internal control system, considering that it draws attention to the system's weak spots. The presentation of the SAI's conclusions and findings analysis concerning internal controls will contribute to improving the quality of the Consolidated Annual Report on PIFC and enhance the examination of the state of play in this area.

⁵⁷ Article 2, item 51d) of the Budget System Law, link to the Law: <http://www.mfin.gov.rs/UserFiles/File/zakoni/2018/zakoni/Zakon%20o%20budzetskom%20sistemu%2095-18.pdf>

Strengthened legislative framework for establishing the basis for building the Governmental Audit Office of EU Funds's institutional and administrative capacities that enable effective audit of the EU funds control system

The Office will continue its activities in the forthcoming period, and these will concern the adoption and implementation of a new legal basis to strengthen the institution itself and its independent role in the IPA system. Although the Office was established by the Decree on establishing and appointing the Audit Authority, the EC's opinion is that a higher RS Government legal act is needed on the office's establishment in order to improve its effective operation. Reinstitutionalisation would also entail further strengthening of the Office's administrative capacities, in order for it to provide relevant recommendations for the IPA structure to improve the decentralised/indirect management of EU pre-accession funds.

After the adoption of the new systematization act, the Office will strengthen its expert capacities by the end of 2019 and early 2020, by recruiting new employees and through professional development of existing ones, in accordance with the relevant analytical assessment of jobs, within the funds allocated in the budget of the Republic of Serbia, while maintaining fiscal consolidation. Training and certification of new employees will be conducted in accordance with a training plan to be implemented by the National Academy of Public Administration (NAPA).

In order to strengthen the human, administrative, and institutional capacities of the **Governmental Audit Office of EU Funds**, for performing the function in the EU funds management system, in 2020, additional funds from the Republic of Serbia's budget will be required for expenditure concerning increasing the number of employees, raising the rank of existing employees, maintaining, upgrading, and developing the interface for AuditDoc, renovating office space, and procuring equipment needed due to the increased number of employees.

Preparing a comprehensive Staff Retention Policy within the IPA structure, in accordance with the measures that will be adopted at the national level for public administration and government administrations, which, in accordance with their scope of work, perform state administration tasks related to the management of pre-accession assistance funds. The Office has plans to develop a staff retention policy to secure adequate and stable administrative capacities. Staff retention is certainly a subject of the EC auditor's high-risk findings.

Developed mechanism and strengthened capacities for recovery of funds aimed at protecting the EU's financial interests — The implementation of activities pertaining to the reform objectives defined by the AFCOS Strategy is planned for the next period, and these activities are related to establishing an adequate mechanism for funds recovery and development of risk management policy in the context of preventing irregularities and fraud in dealing with EU funds. **The strengthening of the mechanisms for funds recovery** is set to be carried out through a comprehensive analysis of the said area in order to identify the shortcomings of the legal framework, after which the framework would be modified.

The AFCOS has a coordinating role throughout the process, while the EU Funds Management Department of the Ministry of Finance is responsible for developing the mechanisms for recovery of funds and capacity building. The legal basis is primarily within the framework of the Law on Ratification of the Framework Agreement between the RS and the EC on the rules for implementing EU financial assistance to the Republic of Serbia under the pre-accession assistance instruments IPA and IPA II. It is noted that the RS Government is obligated to

recover the EC funds that have been paid out improperly (because of irregularities, systemic irregularities, fraud, active corruption, passive corruption, conflicts of interest, etc.) and to initiate legal proceedings when necessary. The Budget System Law, as well as the Decree on the Management of EU pre-accession assistance Programs, further regulate the rules for the recovery of funds that are spent improperly. The National Authorising Officer (NAO) bears the overall responsibility for the financial management of IPA assistance in the Republic of Serbia and for ensuring the legality and regularity of the expenditures. Article 41 of the Law on Ratification of Framework Agreements, both for the period 2007–2013 and for the period 2014–2020, prescribes the NAO's responsibility for recovery of funds. The issue of funds recovery is one of the core issues that need to be fully resolved in the EU funds management system in the Republic of Serbia. The aim is to create a legislative and procedural framework that allows for funds recovery procedures to be carried out in a timely and efficient manner, and for the employees of the system to have highly developed capacities and specific skills to implement and supervise irregularities and recovery procedures in accordance with their duties and competencies.

The Action Plan for the implementation of the AFCOS Strategy, under the objective Implementing the Risk Management Policy in the Context of Preventing Irregularities and Fraud with European Union Funds, provides for the preparation of the Methodological Guidelines for Risk Management for irregularities and fraud, as well as preliminary steps and steps that need to be carried out after the guidelines are produced. In order to support the development of the methodology document, the German Corporation for International Cooperation (GIZ) hired a consultant that is tasked with providing expert assistance to the AFCOS in creating the document. The deadline for drafting the guidelines is the fourth quarter of 2019.

Strengthened institutional capacities of the Budget Inspection for protecting the Republic of Serbia's financial interests — In order to improve the capacities for performing the budget inspection function, the Budget Inspection Department was established at the Ministry of Finance, which accentuates the strengthening of the existing ex-post control mechanism for the legality of individual transactions in order to improve the protection of financial interests of the RS. Currently, the focus is on strengthening the capacities of the Budget Inspection Department and increasing the number of inspection controls in the area of dedicated and legal spending of national budget funds. Consequently, it is important to prepare and adopt the **Budget Inspection Methodology and the Planning Document for the Budget Inspection's Development for the period 2020–2025 at the beginning of 2020 with the accompanying Action Plan**, as well as to implement the adopted Training Program for Budget Inspectors, which is designed to strengthen the administrative capacities of the Budget Inspection Department employees. The employee training Program is made up of two parts: the first part is related to the expert skills required for performing work duties, and the second part is related to acquiring the additional skills required for better performance of roles. The MF Budget Inspection Department will be in charge of full harmonisation and coordination between the BID and local government budget inspectors, as well as the BID and provincial budget inspectors. More specifically, the BID operational methodology will prescribe uniform standards and procedures for performing inspection controls.

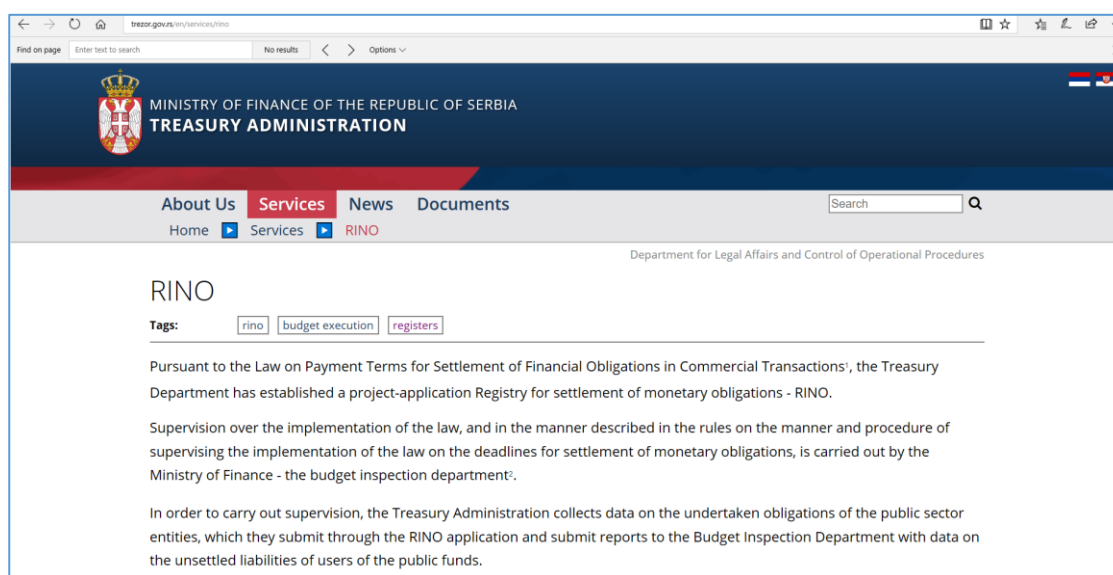
The planned reform activities in the Action Plan, in relation to changes in the operation of the budget inspection, will also enable the measuring of efficiency of completed inspection controls in the next action document that pertains to the public finance management reform from 2020.

2.4. ACCOUNTING IN THE PUBLIC SECTOR

CURRENT STATE OF PLAY AND PROGRESS IN THE PERIOD 2016–2018

This PFM RP pillar covers the area of budget accounting and financial reporting, and the main proponent of reform in this area is the Treasury Administration of the Ministry of Finance.

The scope and quality of budget and fiscal reporting have been improved. Incorporating IBBs in the budget execution system ensured comprehensive controls of settlement of obligations within planned spending, which is one of the PFM RP's key objectives, as well as the broader scope and quality of budget execution reporting. In 2016, the Treasury Administration's budget execution system brought in 247 IBBs (judicial authorities — courts and public prosecutor's offices), while in 2017, it brought in 73 IBBs (correctional institutions, cultural institutions, and institutions for exercising employee rights). In the course of 2018, preparations were conducted for 209 IBBs — social protection institutions, which are overseen by DBB Ministry of Labour, Employment, Veteran and Social Policy, for the purpose of including them in the budget execution system as of 1 January 2019. In addition, the monitoring and reporting of arrears has been improved by expanding the RoP system to include 'public sector to public sector' obligations.



RINO System — Treasury Administration website

The Treasury Administration also launched the Central Invoice Register (CIR)⁵⁸. The Law on Amendments to the Law on Deadlines for Settlement of Monetary Obligations in Commercial Transactions (Official Gazette of RS, No 113/17) stipulates, among other things, as of 1 March 2018, the obligation to register invoices and other payment requests issued by creditors in commercial transactions between the public sector and business entities, or between public sector entities in which public sector entities are debtors and, to that end, the Ministry of Finance's Treasury Administration established the CIR as a database for registering underlying invoices and other payment requests. The launch of the CIR contributed to a more efficient monitoring of assumed obligations and arrears within the deadlines prescribed by law, which

⁵⁸ Central Invoice Registry (CIR), <https://www.trezor.gov.rs/src/services/crf/>

resulted in a reduction in the number of late payments, better control over the settlement of financial obligations, and improved planning and management of public funds. The main objective is to improve the system of keeping track of issued invoices, as well as to establish better control over the settlement of financial obligations.

With this amendment to the Law, creditors are obligated to register issued invoices and other payment requests in commercial transactions in which public sector entities are debtors before submitting them to debtors with the CIR, by entering information from the invoice or other payment request in the Treasury Administration's information system.

Another creditors' obligation that is prescribed, is to provide debtors with registered invoices or other payment requests within three working days from the day of registration, with the instruction for payment of the invoice or other payment request, as well as for debtors to settle their financial obligations under invoices or other payment requests only if they are properly registered with the CIR, which is determined by checking the database.

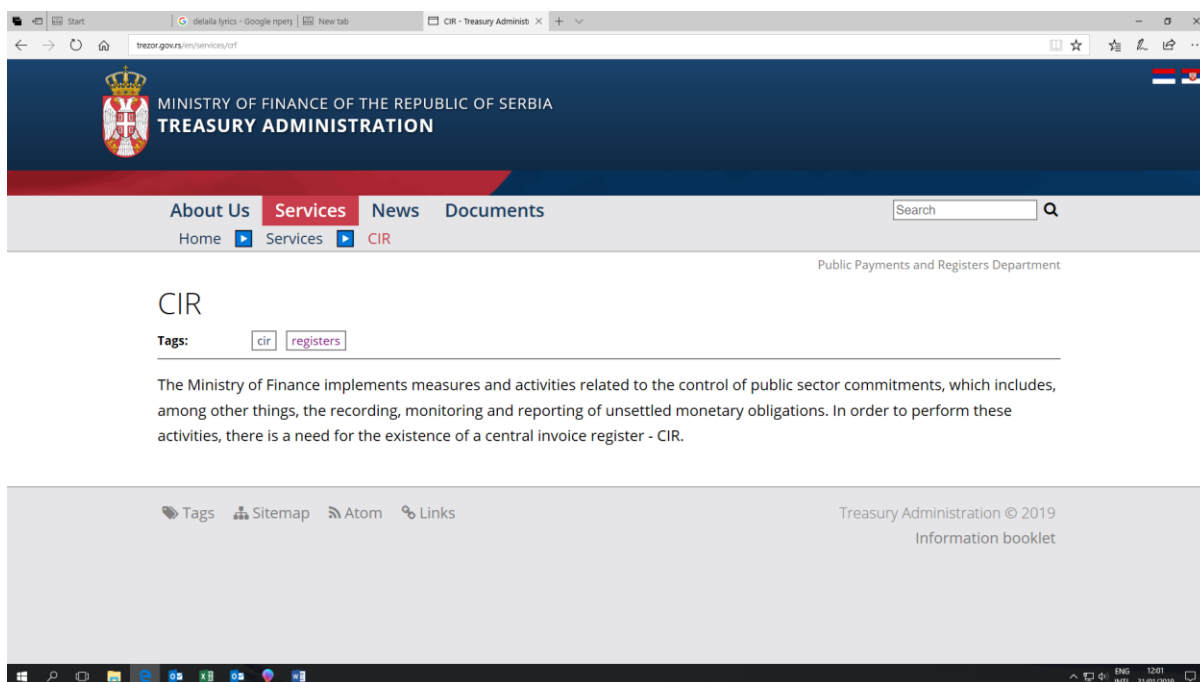
This improves the system for reviewing creditors' claims against public sector entities in commercial transactions in which public sector entities are debtors, as well as public sector entities' obligations in commercial transactions towards creditors. That improved the system of monitoring and overseeing the settlement of these obligations among public sector entities within the deadlines prescribed by the Law.

The registration of invoices, as well as other payment requests issued by creditors in the described commercial transactions, is in the interest of creditors, considering that this improves the efficiency and security of collection of payments. Debtors are allowed to check the accuracy of the submitted invoice before payment to creditors and to make the payment only if the invoice is properly registered and if it corresponds to the received invoice or another payment request.

Registering invoices and other payment requests enables more successful planning and management of liquid assets, both for business entities and in the public sector, increased transparency of information on creditors' claims against public sector entities in commercial transactions, as well as transparency of information on public sector entities' obligations in these transactions.

The Treasury Administration will continue to improve its public financial management system in accordance with the new requirements and standards. In addition to the capacities of the Treasury Administration of the Ministry of Finance, budget beneficiaries also need to secure adequate capacities in order to apply the new standards.

Improvement of the budget accounting reform is currently underway.



Central Invoice Register System — Treasury Administration website

PLANNED ACTIVITIES 2019–2020

With its responsible operations, professional capacities, and innovative information solutions, the Treasury Administration ensures a modern system of public finances that increases efficiency and transparency in the use of funds that come from the budget of the Republic of Serbia, the budget of local governments, and social security funds.

The reform of public financial management requires ongoing improvement in the area of accounting and financial reporting.

Budget accounting and financial reporting in the Republic of Serbia are cash-based. Cash-based accounting has traditionally been recognised for underlining compliance with the Budget Law on an annual basis.

The long-term objective of public sector accounting reform in the Republic of Serbia is the gradual transition from cash-based to accrual accounting and financial reporting, as well as the implementation of International Public Sector Accounting Standards (IPSAS) by 2030.

The implementation of the accounting reform centred around the transition to accrual accounting requires significant financial and human resources. All changes pertaining to the reform of the accounting system and the application of international accounting standards for the public sector in the Republic of Serbia should be preceded by analytical efforts aimed at assessing the options, associated risks and costs, etc. (cost-benefit analysis). The reforms in this area should be incremental and planned out to be implemented in the medium/long term in order to allow sufficient time to prepare detailed implementation plans, develop accounting

policies, and implement and test the new systems. In order to create an adequate starting point, the first necessary step is strengthening the cash-based accounting system in accordance with IPSAS standards.

International experience shows that accounting reform in the public sector is an ambitious goal that involves a long-term and financially demanding process, which makes it difficult to accurately predict the reform costs. **One of the preparatory activities in the process of transitioning to accrual accounting is producing a comparative analysis of the application of IPSAS standards in countries that have moved to accrual accounting**, taking into account the varying practices in this area in EU member states, as well as the cost-benefit analysis (options, risks, costs, etc.) of the application of accrual accounting in the Republic of Serbia. The gap analysis comparing the publicly (generally) accepted accounting principles in the public sector of the Republic of Serbia and IPSAS standards was conducted under the framework of the Report on the Enhancement of Public Sector Financial Reporting (REPF)⁵⁹, *which was prepared by the World Bank, as well as the gap analysis that was conducted through the IMF's technical assistance.*

The situation in this area in at least three countries that have implemented accrual accounting needs to be examined and analysed. In particular, the following should be taken into consideration: what normative activities were required for the new accounting basis with regard to amendments to laws and other associated regulations; what changes and to what extent were needed in the methodological procedures, guidelines, and instructions that had previously been applied in public sector accounting records and financial reporting; whether the transition to accrual accounting was made in full, or if it was made through modified models (modified cash-based, modified accrual, etc.); how much time did it take to prepare for the transition from one form of accounting to another and were any parallel efforts required; what are the effects of the transition on determining the fiscal result of budget execution (surplus, deficit); etc.

Simultaneously with IPSAS implementation plans, the Ministry of Finance is monitoring the activities pertaining to the development of European Public Sector Accounting Standards (EPSAS). Taking into consideration that — according to the public consultation centred around IPSAS standards' fitness for EU Member States — IPSAS generally represents the appropriate reference framework for the development of EPSAS standards. In the European Union, EPSAS standards are yet to become part of the EU acquis. The preparation of financial reports, budgets, IT training, and communication strategies and data conversion (transfer) — according to the European Commission's assessment — represent a serious burden on the public sector, and the introduction of EPSAS standards is estimated to be among the most extensive reforms in European history⁶⁰.

The implementation of the accounting reform in the public sector first requires the strengthening of capacities and resources both at the Ministry of Finance's Treasury Administration and with public funds beneficiaries. A recent analysis conducted by the Ministry of Finance's Treasury Administration shows that the public sector employs around 14,000 accountants, excluding state-owned companies that apply international financial reporting standards. This information clearly indicates that strengthening capacities requires ensuring appropriate time frames, as well as human and material resources. Further efforts are

⁵⁹ *Serbia - Public sector accounting review : report on the enhancement of public sector financial reporting (English)*, <http://documents.worldbank.org/curated/en/637021520634430574/Serbia-Public-sector-accounting-review-report-on-the-enhancement-of-public-sector-financial-reporting>

⁶⁰ Website: <http://www.epsas.eu>

required centred around training and capacity building in public sector accounting. It is also necessary to — applying the territorial and institutional principles — select the appropriate number of senior accountants assigned for the training and certification programme with the ability to transfer knowledge. Otherwise, a shortage of qualified professional staff could represent a significant obstacle to improving accounting in the public sector.

There are no clear and harmonised legal requirements that pertain to the professional education of accountants, chief accountants, and accounting department executives. One of the first activities intended to strengthen staff capacities of accountants in the public sector would be adopting a national education standard for professional accountants that would regulate: professional titles of public sector accountants, educational programs for obtaining professional titles, ways of determining the qualifications for obtaining professional titles, licensing of professional qualifications, right and obligation of continuing education, and more. Establishing an accountant training centre would represent a favourable step towards developing and strengthening the capacities of public sector accountants.

The Ministry of Finance’s Treasury Administration took part in the public sector accountant certification project of the Republic of Serbia, under which the Public Sector Accountants Certification Training Programme was implemented in accordance with international standards and practice. The programme was developed by the British Chartered Institute of Public Finance and Accountancy (CIPFA) from London, implemented in partnership with Ljubljana’s Centre for Excellence in Finance (CEF), and funded by the Republic of Slovenia’s Ministry of Foreign Affairs and USAID. The training programme provided for the enrolment of the first generation of 25 trainee accountants. The programme’s objective was to advance the accounting profession and to balance out the knowledge and skills of accountants in the public sector. The trainees who successfully passed the exams were awarded an internationally accepted certificate, which brought the project to a successful end.

Joining an internationally recognised training and certification programme would be a favourable step towards sustainable building of administrative capacities. The modernisation and institutional strengthening of the Treasury Administration are high on the list of priorities of public financial management reform and crucial for the implementation of this pillar.

2.5. EXTERNAL CONTROL OF PUBLIC FINANCES

CURRENT STATE OF PLAY AND PROGRESS IN THE PERIOD 2016–2018

In order to ensure a stable public finance system in a country, it is necessary to ensure effective external oversight and monitoring systems, including strict reporting and transparency rules. Accomplishing this required the following:

- improving the scope and quality of external audits and
- strengthening parliamentary oversight of public finances.

During the three years of reform in this area, external oversight of public finances was established through the partnership efforts of two independent bodies — the State Audit

Institution and the National Assembly through the Committee on Finance, State Budget and Control of Public Spending. In order to strengthen mutual cooperation, in June 2015, the two institutions signed a Memorandum of Cooperation. The document regulates the exchange of information regarding the implementation, adoption, and application of policies and regulations, as well as the projects and other activities and initiatives in the area of financial control and accountability. The SAI provides support to Committee members in understanding the nature and importance of audit findings and determining appropriate corrective mechanisms. The Committee reviews the SAI’s activities and reports to the National Assembly and at the same time works to establish and develop mechanisms for monitoring the implementation of the recommendations made by the SAI and the National Assembly, based on the SAI report.

Improving the scope and quality of external audits: Taking into account the more than 11,000 potential audited entities and existing capacities (office space, number and structure of employees, etc.), the SAI is not able to audit all public administration institutions during its mandate every year. However, the SAI has invested significant efforts to provide high quality audits that have a positive impact on the functioning of the public sector. The SAI’s audit planning involves a risk-based approach in making decisions, and the institution significantly improved its performance in the previous period through:

- increasing the number and quality of audit products,
- number of auditors, and
- coverage of audited entities (the chart shows a detailed overview of data for the period 2015–2018).

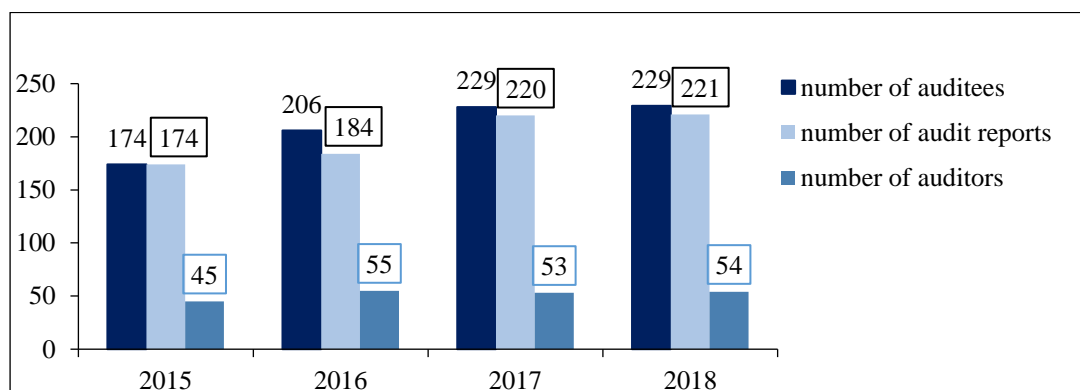


Chart: The SAI's achievements in the process of improving the coverage and quality of external audit

The improvement was achieved by adopting and applying handbooks that concern the audit of financial reports and the compliance of operations, as well as the audit of their operationality. The audit handbooks are aligned with ISSAI standards⁶¹. *In the course of 2018, the Compliance Audit Handbook was developed as a separate document, and its application — centring on the areas where highest risks were detected — resulted in the publishing of 58 audit reports. The 2013 IPA Programme’s twinning light project Audit Quality Control in the State Audit Institution brought about the adoption of the Quality Assurance and Quality Control Handbook. According to the handbook, 2018 saw six “cold” and 39 “hot” reviews of audit reports carried out.*

⁶¹ International Standards of Supreme Audit Institutions

In addition to the above, the SAI's efficiency was improved also through the ongoing development of staff capacities by implementing internal and international trainings, as well as their participation in a number of INTOSAI and EUROSAI organisations and working groups. In the course of 2018, the SAI conducted trainings on operational auditing, giving rise to an increase in the number of operational auditors from nine to 48. Furthermore, additional training and exams were organised for approximately 60 SAI employees who obtained the title of State Auditor.

The European Commission's 2018 Progress Report⁶² and the SIGMA Monitoring Report on the Principles of Public Administration published in November 2017⁶³ noted the progress that had been made.

Considering that audit reports are not an end in themselves and that instead they should contribute to good governance, transparency, and accountability in the public sector, additional activities needed to be carried out in order to increase the implementation of the recommendations that are presented to audited entities.

For this purpose and in order to strengthen partnerships with key stakeholders — primarily the National Assembly — the SAI simultaneously worked to improve the systematic monitoring of the implementation of audit recommendations and to digitalise the audit process. As part of the development of the tailored audit management system (AMS), the mapping of the audit process and identification of requirements were completed. At the same time, while working to increase transparency, the SAI published the Audited Entity Response Report Form⁶⁴ on its website, containing identified irregularities and corrective actions taken by the audited entity, or actions against presented recommendations. In the course of 2019, the SAI will start publishing post-audit reports that contain an assessment of each corrective action, an opinion on whether the corrective actions are satisfactory, and an opinion on whether the audited entity is in violation of the good performance obligation in the event that the corrective actions are unsatisfactory.

The publishing of audit reports was launched in a new form — in addition to every report, the SAI's website publishes report summaries aimed at a more transparent, simple, and comprehensible way of presenting audit recommendations to the public.⁶⁵

Strengthening parliamentary oversight of public finances

The forming of the Subcommittee for SAI Audit Reports Review (hereinafter referred to as Subcommittee) in February 2015, the appointment of new Subcommittee members in July

⁶²The 2018 report accompanying the Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, 2018 Communication on EU Enlargement Policy, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaji_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaji_ek_o_srbiji(1).pdf), p. 97

⁶³SIGMA Monitoring Report on the Principles of Public Administration published, November 2017, <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>, p. 185

⁶⁴Notice to Audited Entities, <https://www.dri.rs/mediji/Obavestjenje-za-subjekte-revizije.n-339.7.html>

⁶⁵Audit Report Summary, <https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D1%80%D0%B5%D0%B7%D0%B8%D0%BC%D0%B5-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B0-%D0%BE-%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B8.405.html>

2016, and the adoption of the August 2017 Work Guidelines strengthened the function of parliamentary oversight of public finances.

The adoption of written rules (Guidelines) for reviewing SAI reports was a prerequisite for holding sessions (hearings) in the form of discussions on reports in which should involve audited entities, representatives of relevant ministries, and other pertinent stakeholders, in addition to SAI representatives.

The purpose of the sessions, which serve to deliberate over audit reports on budgetary consolidated financial statements and audited entities' compliance, is to raise awareness at the central and local government levels about the importance of audit findings and SAI recommendations, as well as about the role of parliamentary oversight of public finances. Following deliberation, the Committee, acting on the Subcommittee's proposal, produces the Proposed Conclusion, which it then refers to the National Assembly for consideration and approval. The proposed conclusions contain, among other things, suggestions for corrective measures to ensure smooth implementation of the SAI's recommendations aimed at aligning all relevant legal acts with the Budget System Law for the purpose of eliminating discrepancies and making necessary amendments to some provisions of the law that might have negative consequences. After the conclusions are adopted at the National Assembly, they are published in the Official Gazette of the Republic of Serbia. Four sessions have been held so far at the local level — in Novi Sad, Subotica, Leskovac, and Kruševac.

The sessions of the National Assembly of the Republic of Serbia and the sessions of all working bodies, press conferences, public consultations, activities of the Speaker of the National Assembly, and other events can be either watched live or accessed through the website archive, which provides access to the media and interested non-governmental organisations and third parties. Furthermore, the official website of the National Assembly offers access to documents produced in the activities of working bodies.

In addition to the Memorandum of Cooperation with the SAI, the Committee on Finance, State Budget and Control of Public Spending of the National Assembly signed the Memorandum of Cooperation with the Ministry of Finance in June 2015, which ensured a system for transferring data and information on the spending of the funds from the budget of the Republic of Serbia. Based on the Memorandum of Cooperation, the Protocol on Data Transfer was concluded between the Committee and the Treasury Administration of the Ministry of Finance in December 2015. According to the Protocol, the Committee retrieves data from the Ministry of Finance's Treasury Administration through reports that are processed and formatted by the Administration and that are uploaded to an external server along with codebooks for the Committee's needs. The electronic files with the report from the Administration's external server are downloaded online by the National Assembly or the Committee to their own information system.

These activities are part of the project to design the Public Finance Oversight Portal, which is being implemented at the National Assembly with the support of the United Nations Development Programme (UNDP) and the Swiss Agency for Development and Cooperation (SDC) under the project Strengthening the Oversight Role and Transparency of the Parliament. The Portal is planned for upgrading in twelve stages with a view to integrating the website with other systems for overseeing the spending of public funds, which will facilitate direct access to information and offer simpler and more efficient monitoring of public outgoings.

PLANNED ACTIVITIES 2019–2020

Improving the scope and quality of external audits

In the time between 2015 and 2018, the average number of positive opinions set out by the SAI in the reports on financial statements audit and compliance was somewhat above 10%. In this regard, the apparent conclusion is that on most occasions, the financial statements presented by public funds beneficiaries are not accurate, objective, or reliable, meaning that activities, transactions, measures, and decisions are predominantly noncompliant with regulations.

In order to strengthen accountability in the public sector, the SAI's activities in the forthcoming period will continue to be centred on further continuous improvement of audit procedures, human resources management, and bolstering the SAI's influence through improvement of systematic monitoring of implementation of recommendations and communication, in accordance with the new Strategic Plan 2019–2023⁶⁶, which was adopted on 24 December 2018.

During this strategic period, the SAI will be conducting a separate financial statements audit, a separate compliance audit, and a separate operational audit. Combined audits will be carried out based on risk assessments. In addition to regularly updating the existing handbooks, the SAI will produce the Preparedness Audit Handbook for the implementation of Agenda 2030: Sustainable Development Goals. Furthermore, the SAI will strengthen its capacities and develop guidelines for both IT and environmental audits.

As for human resource management, in order to deliver the activities under the measure 5.3 of the Action Plan for the implementation of the Public Administration Reform Strategy for the period from 2018 to 2020, to strengthen the institution's capacities and improve the working conditions by increasing the number of employees and permanently resolving the issue with office space⁶⁷, the SAI will continue with the activities centred on the Human Resource Management Strategy for the period between 2017 and 2020. The dynamics will be established by updating the Action Plan for the implementation of the Strategy, taking into consideration the SAI's new organisational structure, which also includes five audit departments, four of which are audit departments that are organised according to public administration departments and qualified to carry out all three types of audit, in addition to the department that performs activities focusing on methodology, quality control, and strategic planning. At the same time, the SAI will continue to train new operational auditors in order to ensure that an increasing number of operational audits are conducted in the future.

At the same time, following the completed process mapping, **there are plans to procure tailored Audit Management System software** in 2019, with the first trial runs set for 2020. The system will also contribute to the finalisation of the recommendation monitoring system.

In accordance with the SIGMA recommendations, strengthening cooperation with the National Assembly will continue through the providing of expert support to act following the receipt of

⁶⁶ State Audit Institution's Strategic Plan 2019–2023, https://www.dri.rs/upload/documents/Opsti_dokumenti/DRI%20Strateski%20plan%202018-2023.pdf

⁶⁷ Action Plan for the Implementation of the Public Administration Reform Strategy in the Republic of Serbia 2018–2020, <http://mduls.gov.rs/wp-content/uploads/AP-RJU-narativni-deo-2018-2020.pdf>

the SAI report and by ensuring that an efficient system is in place for monitoring the implementation of the recommendations.

As a result of the increase in the number of operational audits, as well as Agenda 2030, cooperation with other committees of the National Assembly will be bolstered, as will that with the National Assembly Focus Group for the development of control mechanisms for the process of implementation of the Sustainable Development Goals⁶⁸, in regard to the topics issues included in operational audits.

The attention that the National Assembly can pay to audit reports contributes to placing additional pressure on the executive branch, which in turn creates favourable conditions for activities pertaining to monitoring and ensuring the implementation of the SAI's recommendations and measures.

Strengthening parliamentary oversight of public finances

The Committee on Finance, State Budget and Public Spending Control of the National Assembly will continue to advance its control function, in particular by holding subcommittee and committee sessions that will discuss SAI reports on completed audits in the presence of representatives of the Institution, audited entities, and, as needed, representatives of other relevant bodies, organisations, and institutions at the central and local government levels.

In particular, the sessions that are held by the Committee outside the seat of the National Assembly, at local self-government units, will continue. The objective of holding these sessions, which have so far deliberated over audit reports of budgetary consolidated financial statements and operational compliance of the cities where the sessions were held, is to raise awareness at the level of local governments about the importance of audit findings and SAI recommendations, as well as the role of parliamentary oversight of public finances. So far, four such sessions of the Committee/Subcommittee have taken place, but there are plans to increase the number of these meetings each subsequent year, with the participation of representatives of audited entities and the State Audit Institution, as well as relevant ministries and representatives of other relevant bodies, organisations, and institutions, while reviewing the SAI's reports on auditing these entities.

In order to increase the level of skills of members of parliament and to enable them to better inspect the SAI's reports, an Expert Group is planned to be formed to provide expert support to members of parliament. The Expert Group is planned to be made up of representatives from the academic community specialised in economics, the Chamber of Authorized Auditors, the Association of Internal Auditors of Serbia, as well as SIGMA experts, the German development agency GIZ, and the Delegation of the European Union.

In the forthcoming period, the development of the Public Finance Oversight Portal will continue, which will provide access to current budget execution information on a monthly basis and to public expenditures and outgoings, grouped according to the prescribed budget classifications. For the subsequent stages, there are plans to link the Portal with other electronic systems for monitoring public spending from the state budget (Public Debt Administration of the Ministry of Finance, State Audit Institution, Public Procurement Office, Republic Commission for Protection of Rights in Public Procurement Procedures, etc.). This would allow

⁶⁸ The focus group — made up of 11 members — was formed on 27 September 2017.

for retrieving information from other bodies and establishing a uniform database on the state budget public spending system in a way that would facilitate the access of members of parliament and the public to needed information on the spending of budget resources and enable them to easily and efficiently monitor public expenditures from the budget and oversee public finances.

3. ROLES AND RESPONSIBILITIES FOR THE DESIGN, MONITORING, AND REPORTING ON THE IMPLEMENTATION OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM

3.1. PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM STEERING COMMITTEE

The Steering Committee of the Public Financial Management Reform Program is tasked with carrying out high-level political coordination under the direct supervision of the Minister for Finance, who chairs the Steering Committee's meetings.

The Steering Committee is made up of the following members:

- **Minister for Finance**, as chairperson of the Steering Committee, and the minister responsible for the overall reform of public financial management in the Government of the Republic of Serbia;
- **State Secretaries of the Ministry of Finance**;
- **President of the State Audit Institution**;
- **Chairperson of the Committee on Finance, State Budget and Public Spending Control of the National Assembly**.

The Steering Committee's meetings are aimed at:

- monitoring the implementation of the Action Plan in relation to its objectives and performance indicators;
- deliberating over the Monitoring Report prepared by the Working Group;
- resolving any potential coordination issues or difficulties in the implementing of the Program in the reporting period;
- setting out and submitting to the Government the report on the implementation of the Public Financial Management Reform Program;
- deciding on the allocation and reallocation of resources intended for implementing the Public Financial Management Reform Program;
- identifying, considering, and assessing the risks associated with the implementation of the Program;
- facilitating coordination with other reform processes; and
- analysing donor support in the area of public financial management reform.

The Steering Committee is supported by the Technical Secretariat of the Ministry of Finance's Department for International Cooperation and European Integration.

3.2. WORKING GROUP FOR THE PREPARATION, MONITORING, AND REPORTING ON THE IMPLEMENTATION OF THE PUBLIC FINANCIAL MANAGEMENT PROGRAM 2016–2020

The members of the Working Group for preparation, monitoring, and reporting on the implementation of the Public Financial Management Reform Program 2016–2020 (PFM RP Working Group), chaired by the Minister for Finance and launched in February 2015, were reappointed on 20 August 2018 by the decision of the Minister for Finance (No: 119-01-274/2018-24-02). The PFM RP Working Group is made up of representatives from the following relevant institutions:

1. **Ministry of Finance** (*including the Secretariat, Department for Macroeconomic and Fiscal Analyses and Projections, Budget Department, Fiscal Risk Monitoring Department, Department for International Cooperation and European Integration, Fiscal System Department, Customs System and Policy Department, Department — Central Harmonization Unit, Budget Inspection Department, Anti-Fraud Coordination Service for combating irregularities and fraud in dealing with EU funds (AFCOS), EU Funds Management Department,, Tax Administration, Treasury Administration, Public Debt Administration, Customs Administration, Tobacco Administration, and Administration for the Prevention of Money Laundering*);
2. **National Assembly Committee on Finance, State Budget and Public Spending Control;**
3. **State Audit Institution;**
4. **General Secretariat of the Government;**
5. **Public Policy Secretariat;**
6. **Ministry of Public Administration and Local Self-Government;**
7. **Ministry of Economy;**
8. **Ministry of European Integration;**
9. **Public Procurement Office;**
10. **Governmental Audit Office of EU Funds; and**
11. **HR Management Service.**

The PFM RP Working Group was formed as a key technical body whose role is to determine the medium-term goals, measures, results, and activities in PFM, to monitor and report on the delivery of identified objectives, measures, results, and activities, and, as needed, to propose new ones when reviewing the PFM RP, to align the PFM RP's objectives, measures, results, and activities with other relevant strategic documents, and to advance mutual cooperation in order to improve coordination and exchange of experience.

3.3. PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM TECHNICAL SECRETARIAT

The Technical Secretariat of the Public Financial Management Reform Program in the Department for International Cooperation and European Integration — in accordance with the Decision of the Minister for Finance on the establishment of the PFM RP Working Group of August 2018 — is tasked with providing expert, administrative, and technical support for the activities of the PFM RP Working Group, as well as to the Steering Committee of the Public Financial Management Reform Program.

The Technical Secretariat within the Ministry of Finance's Department for International Cooperation and European Integration is responsible for providing administrative, technical,

and logistical support to the Working Group and the Steering Committee throughout the process of developing, implementing, monitoring, updating, and reporting on the implementation of the Public Financial Management Reform Program, in accordance with the Regulation on Internal Organisation and Systematisation of Jobs in the Ministry of Finance.

Because of the horizontal role played by the Department for International Cooperation and European Integration, this positioning of the Technical Secretariat enables appropriate communication with all members of the PFM RP Working Group. In accordance with the Planning System Law, the Technical Secretariat initiates and coordinates the preparation of the Program Implementation Report adopted by the RS Government no later than 120 days from the beginning of the year for the previous year, as well as the process of improving the Program, and reporting in different discussion groups deliberating over the public financial management reform. Furthermore, before the adoption of the Progress Report or making improvements to the Program, the Technical Secretariat prepares the Public Financial Management Policy Dialogue meetings that take place with representatives of stakeholders, the European Commission, the donor community, and civil society, which is designed to enable consideration of the viewpoints of all relevant stakeholders in the process.

4. RISK MANAGEMENT

Risk management is crucial to the successful implementation of the Public Financial Management Reform Program. Careful and comprehensive risk assessment and planning of appropriate risk mitigation measures will ensure an acceptable and manageable level of associated risks.

This part of the document identifies the key risks to the implementation of the Program and the planned mitigation measures.

The Steering Committee will be in charge of monitoring the risks and ensuring that the measures to remove them are being implemented.

The key risks identified are political, administrative, institutional, and financial in nature.

The risk of lack of commitment to the implementation of the Public Financial Management Reform Program is low, considering that the Minister for Finance has designated the improvement and implementation of the Public Financial Management Reform Program as high priority and that the improved Program and Implementation Reports are adopted by the Government of the Republic of Serbia. This commitment — both by the RS Government and by all relevant institutions involved in the process — guarantees that the implementation of the Program will remain high on the priority list.

Furthermore, the drafting of the Program was very transparent and all relevant stakeholders were consulted, including civil society representatives.

At the administrative and institutional levels, there are certain obstacles that need to be taken into consideration in order to ensure the implementation of the Public Financial Management Reform Program. The coordination mechanisms must be fully operational and all relevant institutions must have strong institutional capacities in order to be able to carry out all activities and achieve the planned results. For this reason — regardless of the Government's restrictions on hiring new employees — most of the units that are relevant to the implementation of the

Program have been further strengthened through the latest systematisation acts. Appropriate human resource capacities are critical to the successful implementation of all segments of the Public Financial Management Reform Program.

KEY RISKS	RISK ASSESSMENT	LIKELIHOOD	RISK MITIGATION	RESPONSIBILITY
1. Political commitment to the implementation of the PFM RP	high	low	The Public Financial Management Reform Program is adopted by the Government.	Ministry of Finance
2. Commitment of all relevant institutions to the implementation of the PFM RP and lack of coordination	medium	low	Regular meetings of the Steering Committee and the PFM RP Working Group.	All relevant stakeholders
3. Inadequate human resource capacities (insufficient number of employees and level of skills and expertise)	high	medium	Filling classified jobs and continuous training of employees; Donors' technical assistance in specific areas of the PFM RP.	All relevant stakeholders
4. Insufficient resources for funding the Public Financial Reform Program	high	medium	Planning the required appropriations in the state budget; The PFM RP activities are high on the list of priorities for funding from IPA funds and bilateral donor assistance; A significant amount of Sector Budget Support for Public Administration Reform funded by IPA 2015 resources is used to implement the PFM RP.	All relevant stakeholders
5. Inadequate, incompatible, and isolated IT systems that pertain to public financial management	medium	medium	Further investment in IT infrastructure and improved system of coordination among institutions. Intensified cooperation with the newly established Office for IT and eGovernment.	All relevant stakeholders

Table: Risk assessment and risk mitigation measures

5. PROGRAM FUNDING

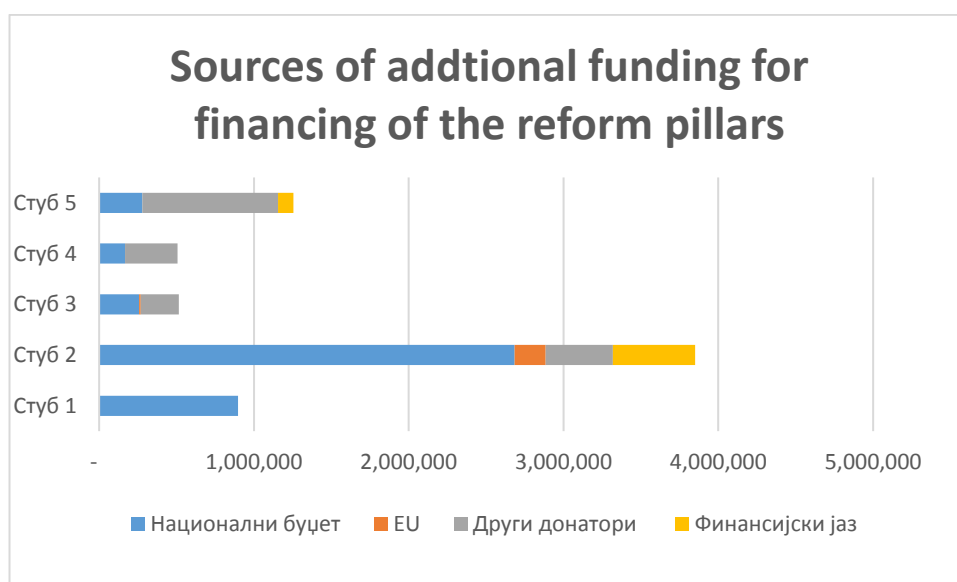
The costs and required additional financial resources for the implementation of the Action Plan of the Public Financial Management Reform Program for the period from July 2019 to December 2020 have been clearly identified, and they need to be secured in full in the forthcoming period. During the improvement of the Public Financial Management Reform Program, special focus was placed on the precise assessment of the needed financial resources for its implementation, in particular considering that this segment was not sufficiently

elaborated in the preparation of the 2015 PFM RP. For this purpose, SIGMA experts provided support. During a three-day workshop, they teamed up with members of the PFM RP Working Group to familiarize themselves with the methodology for cost estimates for individual Program activities.



The workshop with SIGMA experts centred on the estimate of resources required for Program implementation, November 2018

In addition to the resources planned in the budget of the Republic of Serbia, significant donor assistance will be needed in order to implement the Program, which is why the donor community is involved in the process and consulted during the meetings of the Public Financial Management Policy Dialogue.

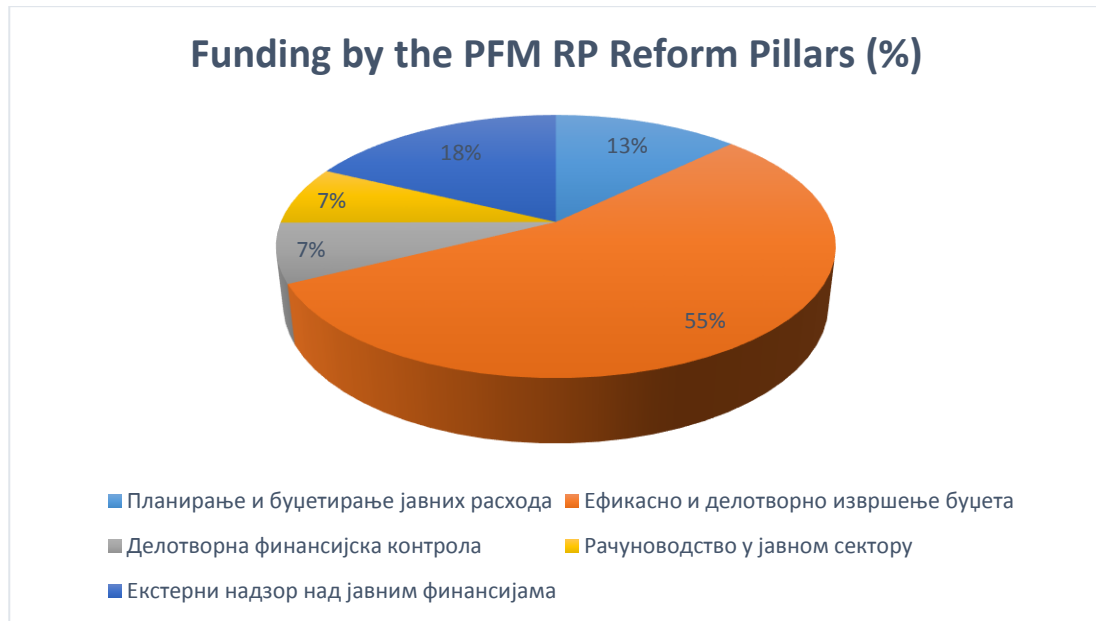


Sources of additional funding for financing of the reform pillars

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⁶⁹ The resources under Pillar 3 (Department activities — MF Central Harmonization Unit) are budgeted for in the RS budget through the cost of regular activities

There are plans for meetings with the donor community, while the European Union is providing significant support, both through IPA and through Sector Budget Support for the Public Administration Reform Sector from IPA 2015, which involves corresponding technical assistance for the public finance reform. The German Corporation for International Cooperation is providing ongoing and considerable support in different areas of the Public Financial Management Reform Program. Furthermore, support is available from SIGMA, TAIEX, and UNDP, as is bilateral assistance from Switzerland, Sweden, USAID, Slovakia, and others.



Funding by the PFM RP reform pillars

ANNEXE: ACTIVITY DELIVERY TIMELINE IN THE PUBLIC FINANCIAL MANAGEMENT PROGRAM

MEASURES/ACTIVITIES	2019				2020				
	quarter	1	2	3	4	1	2	3	4
MEASURE 1.1: FURTHER IMPLEMENTING MULTI-ANNUAL PROGRAM BUDGETING AT ALL GOVERNMENT LEVELS									
<i>1.1.1 Improving the IT system/developing new modules for monitoring and reporting on the performance of budget programmes</i>									
<i>1.1.2 Training on budget preparation and performance reporting</i>									
<i>1.1.3 Development of medium-term plans in accordance with the RS Planning System Law and the Decree on the methodology for the preparation of medium-term plans</i>									
MEASURE 1.2: IMPROVEMENT OF PUBLIC INVESTMENT PLANNING									
<i>1.2.1 Aligning the Capital Projects Decree and the legislative framework with the new methodology</i>									
<i>1.2.2 Preparing and setting up PIMIS (the new Information System that will help manage public investment)</i>									
<i>1.2.3 Capacity strengthening within the Ministry of Finance in order to implement the new public investment management methodology</i>									
MEASURE 2.1: EFFECTIVE REVENUE COLLECTION									
<i>2.1.1. Strengthening the strategic management and primary functions of the Tax Administration, improving the organisational structure and business processes, improving services to taxpayers</i>									
<i>2.1.2. Improving and simplifying the key functions processes: control, payment, tax police</i>									
<i>2.1.3. Establishing the Tax Administration's new organisational structure with separate core and non-core activities</i>									
<i>2.1.4. Automatic exchange of information with third parties aimed at improving risk analysis through simpler data analysis</i>									
<i>2.1.5. Establishing the information and communication system related to EU integration (Chapter 16)</i>									

MEASURES/ACTIVITIES	2019				2020				
	quarter	1	2	3	4	1	2	3	4
<i>2.1.6. Improving the process for bank guarantees/securing customs debt</i>									
<i>2.1.7. Implementation of the ERIAN system</i>									
<i>2.1.8. Improving anti-corruption measures</i>									
<i>2.1.9. Customs Laboratory modernisation</i>									
<i>2.1.10 Strengthening the Customs Administration's capacities for proper calculating, accounting, collection, and payment for EU traditional own resources</i>									
<i>2.1.11 Establishing a uniform system of registers that will integrate all registers and records in order to improve the efficiency of the services provided by the Tobacco Administration</i>									
<i>2.1.12 Strengthening the Tobacco Administration's HR capacities and those of other partner institutions</i>									
<i>2.1.13 Increasing digital awareness among companies in the tobacco industry</i>									
MEASURE 2.2: EFFICIENT PUBLIC DEBT MANAGEMENT									
<i>2.2.1. Strengthening the medium-term public debt management strategy through cost risk analysis</i>									
<i>2.2.2. Introducing the Primary Dealer system and further development of the domestic bond market</i>									
<i>2.2.3. Developing IT systems — business intelligence tools and the second stage of development of IT tools for risk analysis</i>									
<i>2.2.4. Risk management and control using derivatives</i>									
MEASURE 2.3: ADVANCED PUBLIC PROCUREMENT SYSTEM									
<i>2.3.1. Adoption of secondary legislation that result from the new Public Procurement Law in accordance with EU directives</i>									
<i>2.3.2 Preparation and publication of standardised formats for publishing public procurement notices</i>									
<i>2.3.3. Preparation and publication of standardised models of tender documentation</i>									
<i>2.3.4. Preparation and publication of Framework Agreements (3 procurement subjects)</i>									
<i>2.3.5. Preparation and adoption of the Public Procurement System Development Strategy 2019–2023</i>									

MEASURES/ACTIVITIES	2019				2020			
	1	2	3	4	1	2	3	4
2.3.6. <i>Preparation and adoption of Guidelines for improving green public procurement</i>								
MEASURE 3.1: IMPROVED IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION IN ACCORDANCE WITH INTERNATIONAL STANDARDS AND PRINCIPLES								
3.1.1 <i>Introducing quality control in financial management and improving the reviewing of the quality of internal audit of public funds beneficiaries</i>								
3.1.2 <i>Preparing irregularity management guidelines for all public funds beneficiaries that would enable them to create their own irregularity management procedure</i>								
3.1.3 <i>Improving the quality of the consolidated Annual Report, taking into consideration SAI reports and recommendations on internal audit and financial management and control</i>								
MEASURE 3.2: STRENGTHENED LEGISLATIVE FRAMEWORK FOR ESTABLISHING THE BASIS FOR BUILDING THE OFFICE'S INSTITUTIONAL AND ADMINISTRATIVE CAPACITIES THAT ENABLE EFFECTIVE AUDIT OF THE EU FUNDS CONTROL SYSTEM								
3.2.1 <i>Strengthening the legislative framework for the reinstitutionalisation of the Office — adopting and implementing the new legal basis</i>								
3.2.2 <i>Developing a staff retention policy to secure that the Office has adequate and stable administrative capacities</i>								
MEASURE 3.3: DEVELOPED MECHANISM AND STRENGTHENED CAPACITIES FOR RECOVERY OF FUNDS AIMED AT PROTECTING THE EU'S FINANCIAL INTERESTS								
3.3.1 <i>Comprehensive analysis of the area of funds recovery (including the legislative and institutional frameworks), identifying deficiencies, proposing improvements, and best practices and testing best practice models and applying models through practical training</i>								
3.3.2. <i>Increasing the capacities of structures responsible for EU funds for managing irregularities through advanced training</i>								
3.3.3. <i>Development of methodology for managing risks of irregularities and fraud</i>								
MEASURE 3.4: STRENGTHENED INSTITUTIONAL CAPACITIES OF THE BUDGET INSPECTION FOR THE PROTECTION OF THE REPUBLIC OF SERBIA'S FINANCIAL INTERESTS								

MEASURES/ACTIVITIES	2019				2020			
	1	2	3	4	1	2	3	4
3.4.1 Development of the Budget Inspection Methodology								
3.4.2. Development of the Training Programme for budget inspectors								
3.4.3. Conducting training in accordance with the Training Programme								
3.4.4 Preparation and adoption of the Planning Document and accompanying Action Plan for the Development of the Budget Inspection for the period 2020–2025								
MEASURE 4.1: STRENGTHEN ACCOUNTING CAPACITIES THROUGH CERTIFICATION, TRAINING, AND ADDITIONAL ANALYSES								
4.1.1 Comparative analysis with countries in the region that have already transitioned to accrual accounting, as well as analysis of options, risks, costs, etc. (cost-benefit analysis) pertaining to the reform of the accounting system and the application of international accounting standards for the public sector in the Republic of Serbia								
4.1.2. Implementing training courses in order to continue to develop capacities in the accounting sector								
4.1.3 Certification of public sector accountants								
MEASURE 5.1: IMPROVING THE SCOPE AND QUALITY OF EXTERNAL AUDITS								
5.1.1 Strengthening external audit through continuous improvement of auditing and HR management processes								
5.1.2 Introducing the Audit Management System (AMS)								
MEASURE 5.2: ENSURED COMPETENT PARLIAMENTARY OVERSIGHT OF PUBLIC FINANCES								
5.2.1. Strengthening the control function of the National Assembly by organising meetings of the Committee and the Subcommittee on Finance, State Budget and Public Spending Control in the form of a session on deliberating over the Report on the SAI's completed audits at the central and local government levels								
5.2.2. Establishing the expert group to train members of the Committee/Subcommittee aimed at better understanding the SAI's audit reports								