



REPUBLIC OF SERBIA
MINISTRY OF FINANCE

**PUBLIC FINANCIAL MANAGEMENT
REFORM PROGRAM
2016 - 2020**

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I. ACRONYMS AND ABBREVIATIONS

AFCOS	The Section for combatting irregularities and fraud in dealing with EU funds
BSL	Budget System Law
BV	Base Value
CAAT	Computer Assisted Audit Tools
CHU	Central Harmonization Unit
DBB	Direct Budget Beneficiaries
EPSAS	European Public Sector Accounting Standards
ERP	Economic Reform Program
EC	European Commission
ESA	European System of National and Regional Accounts
EU	European Union
FAD	Fiscal Affairs Department (IMF)
FMC	Financial Management and Control
FMIS	Financial management information system
GFSM	Government Finance Statistics Manual
IMF	International Monetary Fund
IBB	Indirect Budget Beneficiaries
IA	Internal Audit
ICT	Information and Communications Technology
ISSAI	International Standards of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MA	Managerial Accountability
MEFP	Memorandum of Economic and Financial Policies
MTBF	Medium-Term Budgetary framework
NIC	National Investment Committee
NCTS	New Computerized Transit System
OECD	Organization for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PAR	Public Administration Reform
PE	Public Enterprises
PEP	Pre-Accession Economic Program
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PDA	Public Debt Administration
PPO	Public Procurement Office
SAA	Stabilization and Association Agreement
SAI	State Audit Institution
SBA	Stand By Arrangement
SBRA	Serbian Business Registers Agency
SIGMA	Support for Improvement in Governance and Management
SOE	State Owned Enterprises
TA	Tax Administration
TV	Target Value
WB	World Bank

1 THE PURPOSE OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM

The current economic crisis has affected Serbia to a significant extent by impacting macroeconomic stability and limiting economic growth. Addressing macroeconomic imbalances and vulnerabilities whilst implementing comprehensive structural reforms in order to enhance competitiveness are the two of the three key objectives of the Economic Program which the Government is committed to implement in the next three years.

The economy of the Republic of Serbia has been recovering in spite of the fiscal consolidation measures that were introduced in 2014 by the Government, aiming to reduce public expenditures and ensure a sustainable level of public debt. The measures are focused on containing public expenditure by scaling down public sector and pension bills and at the same time reducing state aid to state owned enterprises (SOE). The Government is currently implementing a public wage system reform across all government sector institutions as part of the overall Public Administration Reform. In order to underpin fiscal consolidation and strengthen governance, the Government has committed to implement structural fiscal policy measures as part of the Public Financial Management (PFM) agenda, aimed at increasing fiscal transparency, broadening the coverage of the General Budget, introducing a fiscal impact assessment of new legislative initiatives, strengthening cash management as part of the capacity building activities at the Public Debt Administration, and raising the efficiency of revenue collection by further strengthening Tax Administration in line with the medium term Tax Administration Transformation Program.

Tackling inefficiencies in the public sector, improving tax collection, reducing excessive red tape, improving the legal system and contract enforcement as well as addressing non-performing loans are some of the key recommendations that have been highlighted in the 2014 EC Progress Report for the Republic of Serbia. Whilst the EC acknowledges the actions taken by the Government of the Republic of Serbia in 2014 to increase economic growth, it underlines the necessity of investing continued efforts to reduce public expenditure and implement structural reforms in order to restore fiscal sustainability and enhance growth.

The aim of the PFM Reform Program is to provide a comprehensive and integrated framework for planning, coordinating, implementing and monitoring the progress in the implementation of a set of sustainable actions to improve macro fiscal stability, to ensure efficient and effective allocation and use of public resources and to improve service delivery by the Serbian public administration, whilst at the same time improving transparency and overall functionality of the PFM and fulfilling the necessary requirements for European Union (EU) accession.

Even though significant effort has been invested in reforming PFM in Serbia over the last decade, across the various PFM subsystems, the reform activities which were implemented have not been fully aligned or sequenced, which led to uneven progress in several key PFM areas. Having in mind existing gaps in this area, and need for an overarching framework a comprehensive PFM Reform Program (Program) was developed, which will serve as main reform framework in the period 2016 – 2020 in order to strengthen legal and institutional framework for the PFM in conformity with the EU and international standards.

The present program is the result of an on-going consultation process with all key partners relevant to this process. The Program itself is based on the draft PEFA Repeat Assessment 2015, the SIGMA Public Financial Management Report for 2015 and the IMF Fiscal Affairs Department (FAD) Report from March 2015, within the framework of the Memorandum of Economic and Financial Policies (MEFP) under the precautionary SBA.

Intense cooperation with the European Commission (EC) - Directorate-General for Neighborhood and Enlargement Negotiations (DG NEAR), the Delegation of the European Union in Serbia, the IMF

FAD, and continues technical support provided by SIGMA paved the way for successful and prompt finalization of the PFM Reform Program. Detailed and relevant comments provided by those key partners undoubtedly contributed to the quality of the document. Technical Assistance provided by the Delegation of the European Union to the Republic of Serbia and SIGMA were crucial for the formulation and cost estimation of measures, results and activities. In that regard, SIGMA organized workshops in Belgrade in October 2015 and provided necessary expertise to all relevant institutions involved in the process of the preparation of the PFM Reform Program.

The draft PFM Reform Program was presented to the donor community by the Minister of Finance in mid-October 2015. Representatives of the donor community provided very valuable comments and suggestions for further improvement of the Program. Regular meetings with the donor community are envisaged in the following period of implementation of this Program.

The draft PFM Reform Program was also discussed with the civil society representatives in October 2015 in the framework of the National Convent on the EU and will be presented to the Committee on Finance, State Budget and Control of Public Spending of the National Assembly of the Republic of Serbia at the beginning of the December 2015.

The PFM Reform Program will be adopted by the Government of the Republic of Serbia by the end of November 2015. The Program implementation will be closely monitored by the Steering Committee and the Working Group, the Government, the donor community and all other relevant stakeholders will be regularly informed on the implementation progress.

Having in mind that the PFM Reform Program represents a cross-cutting document which takes into account all relevant national strategies and sub-strategies, as well as relevant assessments prepared by the European Commission, IMF and the WB experts, it is necessary to underline the broader context of its nature.

The PFM Reform Program takes all the relevant documents in the field of European integrations starting from the Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part (hereinafter referred to as: SAA), and including all relevant strategic national documents in this field, into account.

The PFM Reform Program is in line with all obligations taken on by the Government of the Republic of Serbia in the process of the accession negotiations.

In addition, the new European Commission's Guidance for **the Economic Reform Programs (ERP)** for 2016 – 2018 emphasizes the importance of PFM. Namely, one of the eight areas of structural reform priorities focuses on the public policies directly affecting the management of public finances.

The Government of the Republic Serbia signed a **Memorandum of Economic and Financial Policies (MEFP) with the IMF** in early 2015 which outlines the economic policies which the Government of the Republic of Serbia intends to implement under the Precautionary Stand By Arrangement (SBA) in the period 2015 – 2017 in order to address the accumulated economic imbalances. The MEFP sets the ground and sketches out the framework within which PFM reforms will be implemented in the medium term as part of the overall Public Administration Reform, whilst at the same time providing some of its key themes and elements across the PFM subsystems.

There is a strong interconnection with national strategies and measures.

The PFM Reform is acknowledged as one of the key pillars of **the Public Administration Reform (PAR)** in the Republic of Serbia and is as such, embedded in the PAR Strategy and the Action Plan on Implementation of PAR Strategy 2015 – 2017. Key actions in areas of Budget Planning and Preparation, Financial Control and Public Procurement have been further articulated under the third objective of the PAR Action Plan, which was adopted by the Government of the Republic of Serbia in March 2015. The current Program complements the PAR Strategy by further detailing objectives and activities within the PFM pillars, whilst it represents a PAR Action Plan activity itself, at the same time. It also set the strategic framework for the Public Internal Financial Control Policy Paper, in line with the EU accession requirements addressed in negotiation related documents in connection to Chapter 32 on Financial Control.

The Special Group for Public Administration Reform, 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 the appropriate tool for communication, coordination and reporting on Public Financial Management Reform.

The PFM Reform Program is for most of the areas of PFM underpinned by more detailed strategies and action plans prepared by the respective responsible entities, such as the PAR Strategy, the Tax Administration Transformation Program, the Arrears Clearance and Prevention Strategy, the National Anticorruption Strategy, the Public Procurement Development Strategy of the Republic of Serbia for the period 2014 – 2018, etc. In addition, the Government's reform strategy is complemented by the constitutionally independent State Audit's Strategy for raising the work of the institution to the standards of INTOSAI. For comprehensiveness and given the importance of external audit in PFM, the reforms in that area are also reflected in this document.

In summary, this PFM Reform Program articulates the Government's commitment to implement a comprehensive set of coordinated and sequenced reforms in the broad field of the PFM which are aimed at increasing accountability and ensuring sound financial management and good governance by improving the efficiency and effectiveness in managing public resources in the Republic of Serbia and in order to pave the way for a smooth transition into the EU Public Administrative Space.

The PFM Reform Program represents the highest priority of the Ministry of Finance and the Government of the Republic of Serbia. Establishment of the comprehensive and well-organized public finances represents a precondition for successful reform process and further development of all sectors of the economy. This commitment can be seen through the fact that in time of fiscal consolidation measures, rationalization of public administration and restrictions of new employment in public administration, relevant organizational units in institutions responsible for successful preparation and implementation of the PFM Reform Program are being strengthened.

2 THE CONTEXT FOR PUBLIC FINANCIAL MANAGEMENT REFORM AND SUMMARY GAP ASSESSMENT

The PFM Reform Program strongly relies on an exhaustive number of previous assessments that have been undertaken and completed by the European Commission during the course of the Screening phase of the accession negotiations in the period 2013 - 2015 under a number of negotiation chapters including but not limited to Chapter 5 – Public Procurement, Chapter 11 – Agriculture and Rural Development, Chapter 16 – Taxation, Chapter 17 – Economic and Monetary Policy, Chapter 19 – Social Policy and Employment, Chapter 22 - Regional Policy and Coordination of Structural Instruments, Chapter 23 – Judiciary and Fundamental Rights, Chapter 29- Customs Union, Chapter 32 – Financial Control and Chapter 33 – Financial and Budgetary Provisions. These

assessments have been further complemented by the annual European Commission Progress Reports for the Republic of Serbia, as well as the reports deriving from the assessments conducted by SIGMA in the period 2012 – 2015, with a strong emphasis on the recent assessment of Public Financial Management from 2014 to April 2015 against the Principles of Public Administration across the relevant horizontal layer of the governance system.

Reflecting on the state of play in PFM, the SIGMA PFM Report for 2015 states mild progress against the 16 Principles of PFM, highlighting weak commitment on the transparency of the national Budget for 2015, a lack of a new policy plan for developing Public Internal Financial Control (PIFC) in the coming period, a low awareness of the importance of Internal Audit within Public fund beneficiaries, a low percentage of implemented recommendations given by the State Audit Institution in the published Annual Audit Reports for 2013, some discrepancies in the regulatory framework for Public Procurement, even though largely aligned with the *acquis*, as well as lower quality performance of the Public Procurement Office due to an excessive number of obligations assigned to the Office.

Further recommendations derived from the SIGMA Assessment report on the Legal Framework and Organizational and Institutional Capacities for Consolidating the system for Financial Management and Control and Indirect Management of EU Funds under IPA II, which was requested by the Ministry of Finance in early 2014, have been incorporated into the PFM Reform Program in attempt to consolidate management of all public funds in the Republic of Serbia regardless of the source, by aligning and integrating financial planning, control and execution of EU Pre-Accession Assistance into the national budget system in order to ensure the highest level of coordinated and efficient public investment planning and programming and a rational unified single system of financial control of public funds in the Republic of Serbia.

The Fiscal Risks, Reporting and Budget Preparation Assessment Report of the IMF for 2015 represent one of the cornerstones of the PFM Reform Program. At the same time, it provides an essential link to the MEFP which the Government of the Republic of Serbia signed in early 2015 with the IMF for the economic reforms it intends to implement under the Precautionary SBA in the period 2015 – 2017 and supports its implementation.

The 2015 IMF Report on Fiscal Risks, Reporting and Budget Preparation notes that the Republic of Serbia has made important progress in implementing PFM Reforms, while at the same time stresses that the large fiscal deficit and need for consolidation to maintain fiscal sustainability increase the importance of continuing PFM reforms. The gaps highlighted in the report include limited budget credibility due annual budget focus in the Budget Process, limited coverage of the national Budget as significant parts of the Government remain outside of the state Budget, lack of reliable fiscal risk assessment as well as arrears, which feed into the broader agenda to improve fiscal reporting and extend current Cash basis to Accrual Accounting over the medium term.

Finally, the PEFA Repeat Assessment Report from the WB lays down the basis for the preparation on the current PFM Reform Program as it provides a comprehensive and detailed assessment of the current state of play across all PFM subsystems in comparison to the results of the same assessment which was carried out in 2010. Therefore, the PFM Reform Program relies heavily on the inputs received from the 2015 PEFA Assessments and aims to address the gaps it has identified.

3 KEY OBJECTIVES OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM

The PFM Reform Program 2016 – 2020 aims to underpin fiscal and macro-economic stability, guides the allocation of public resources to national priorities, supports the efficient delivery of services, and makes possible the transparency and scrutiny of public funds. The PFM measures have been defined with the aim to improve transparency and accountability, and strengthen cooperation among the Ministry of Finance, line ministries and all other relevant stakeholders.

In the long run, the PFM Reform Program aims to achieve following overall key objectives:

- to underpin fiscal and macroeconomic stability,
- to develop sound system of public finances and practices,
- to increase efficiency in the management of public resources,
- to improve efficiency in service delivery,
- to increase transparency of public funds and accountability.

The overall objective of the PFM Reform Program is to achieve a sustainable budget with a reduced debt to GDP ratio through stronger financial management and control and audit processes and linking budget planning to Government policies.

The PFM Reform Program covers six broad areas of action/pillars:

1. Sustainable Medium Term Macro-fiscal and Budgetary Framework
2. Planning and Budgeting of Public Expenditures
3. Efficient and Effective Budget Execution
4. Effective Financial Control
5. Accounting, Monitoring and Financial Reporting
6. External Scrutiny of Public Finances

Each pillar is accompanied by the set of measures, including results, activities, indicators, timeframe, additional costs and responsible institutions for their delivery. Progress in implementation of the PFM Reform Program will be reviewed on bi-annual bases and reported to the Government accordingly.

The current Program articulates those reform measures, results and activities deriving from the gap assessments reports previously mentioned, for which the necessary planning and precognitions are in place at present. The maturity of the measures, including the level of institutional administrative capacities as well as relevancy to ensuring the functionality of the PFM System and meeting the EU accession requirements were the basic criteria for selecting and including the selected measures in the current Program. Nevertheless, specific gaps which remain unaddressed and other requirements deriving from the EU accession process have been described in the relevant sections under each pillar and will be addressed in future revisions of the Program once the necessary preconditions are met.

Special attention was focused on the sequencing of reform measures and activities in preparation of this Program and regular updates of the Program are planned in order to ensure that all gaps identified by the PEFA assessments, the IMF reports, as well as relevant recommendations which will be derived from future EC progress reports and screening reports for various chapters that have a direct and indirect impact on public financial management will be addressed in the framework and timeframes of the current Program.

4 KEY PILLARS AND MEASURES

4.1 SUSTAINABLE MEDIUM TERM MACRO-FISCAL AND BUDGETARY FRAMEWORK

4.1.1 CURRENT ASSESSMENT AND STATE OF PLAY

The Government of the Republic of Serbia has been adopting and publishing its three year Medium-Term Budgetary Framework (MTBF) annually, as part of the Fiscal Strategy up until 2014. As of 2015, the MTBF is an integral part of the Law on the Budget.

The Fiscal Strategy itself covers the general government, and the budgetary framework is coordinated by the Ministry of Finance with inputs from line ministries and subordinated bodies. It contains macroeconomic and fiscal projections that are based on existing and new government policies.

The Fiscal Strategy also contains a list of fiscal risks, though not in significant detail, and lacks in sensitivity analysis that would show the likely direction of public finances should the major variables be less positive.

There are fiscal rules which require the budget deficit to be limited to 1% of GDP over the medium-term, and that the debt to GDP ratio do not exceed 45% of the GDP. Neither of the two have been respected nor enforced in recent years.

The Government of the Republic of Serbia has established a plan to stabilize public finances in the Fiscal Strategy for 2015 with projections for 2016 and 2017, in line with the Precautionary SBA with the IMF. The Strategy contains a plan of structural reforms. Although there are risks to the objectives being achieved, the Strategy shows that the fiscal challenges are being recognized.

The past practice of excluding substantial spending items by classifying them below the line reduced the credibility and effectiveness of the Fiscal Strategy. It also indicated that the effectiveness of policy responses to changing conditions was reduced, as they were often offset by below the line slippages.

The Fiscal Strategy set out an aggregate expenditure ceiling for the state budget in the previous period, which was broken down into sub-ceilings for direct budget beneficiaries.

The information provided in the Fiscal Strategy does not fully provide practical guidance for the budget process as it does not contain a breakdown into the different sectors of the Government. Such a breakdown is required to guide the further process of preparation of the annual budgets at state and other levels. This information is however being produced, and will be in the future included in the Fiscal Strategy.

Additionally, the EC Progress Report for 2014 remarks that fiscal consolidation and economic recovery have been set as the main objectives of the Government, whilst at the same time, The EC has assessed that and the macroeconomic scenario underlying the 2014 Pre-Accession Economic Program (PEP) was broadly plausible as it captured the main risks. This was confirmed at the Ministerial Dialogue in Brussels in May 2015.

According to the Law on Ministries, the Ministry of Finance is among other activities, mandated with the responsibility of conducting macroeconomic and fiscal analysis and preparing projections as well as the preparation of the national budget.

The capacities of the Department for Macroeconomic and Fiscal Analyses and Projections and the Budget Department of the Ministry of Finance have been insufficient in the past for carrying out their regular scope of work. This have been highlighted in many IMF and World Bank mission reports which have insisted on the need to further strengthening not only the number of staff but also the technical capacities required to keep in track with modern trends in the field of macroeconomic analysis, forecasting and budget planning. Additionally, EU accession requirements have also provided an additional impetus for strengthening the capacities of this Macro Department in order to set the grounds for managing the EU Own Resources Scheme, which is one of the key accession requirements under Chapter 33.

Acknowledging the need to further increase the capacities of the In line with recommendations to increase the capacity of the Department for Macroeconomic and Fiscal Analyses and Projections, additional staffing levels were provided with the adoption of the new Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance, in August 2015. A new coordinating body required under managing the EU own resources was also established in the Department as a unit with 3 posts, which are planned to be filled in the short term.

In parallel, the Ministry of Finance is engaged in a constant dialogue with the Fiscal Council of the Republic of Serbia on high level fiscal policy issues which is a key to determining successful fiscal policy and of utmost important for ensuring fiscal sustainability.

In order to address the gaps identified by the national authorities, the Government of the Republic of Serbia has defined the following set of objectives as to ensure a sustainable Fiscal Framework and compliance with EU accession requirements under Chapter 33 – Financial and Budgetary Provisions.

4.1.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 1	TO IMPROVE THE CREDIBILITY OF MACROECONOMIC FORECASTING	
RESULT	ACTIVITY	TIMEFRAME
1.1 Strengthened capacities of the Ministry of Finance for improved macroeconomic forecasting and improved methodological approach	Procurement, customization and implementation of the Bridge Model to improve GDP forecasting	1 st quarter 2017
	Strengthening the capacities for carrying out macro-fiscal sustainability analyses	4 th quarter 2017
1.2 Ensured administrative and technical capacities of managing the EU own resources	Strengthen the capacity of the coordinating body and all other institutions involved in revenue collection for correct calculation, accounting, forecasting, collection, payment and control of own resources	2 nd quarter 2017

4.2 PLANNING AND BUDGETING OF PUBLIC EXPENDITURES

4.2.1 MAIN DEVELOPMENTS AND STATE OF PLAY

The Budget System Law provides a well-defined basis for management of public expenditures as it regulates the entire budgetary process, covering the planning, preparation and approval stages as well as execution and reporting processes. The Law applies to autonomous provinces and local government, public enterprises and some independent agencies. Certain provisions of this Law also regulate budget relations and rules applied to extra-budgetary funds (the State Pension Fund and Disability Insurance, the State Office for Health Insurance and National Employment Service).

The Law has been amended in recent years, improving several budgetary issues and including most own-source revenues of Direct Budget Beneficiaries (DBB) in the State Budget. However, own-source revenues of Indirect Budget Beneficiaries (IBB) are yet to be included. IBBs need to be incorporated into the State Budget, at least to give a full picture of the budgetary central government. On the long run, the Government will aim to extend the coverage of the budget, to include central government entities. The Funds, whose financial plans are currently adopted jointly with the State Budget, should eventually be incorporated into the State Budget. Currently, the State Budget contains only direct budget transfers to the Funds.

The Budget Department of the Ministry of Finance prepares estimates of the State Budget based on its own methodology, and budget users are asked to cost new policies in the Budget Circular letter. However, the baseline estimates are basic and not in common use, while costings are not prepared for the medium-term and there is no agreed methodology for its preparation.

This gap has been partially filled by activities of the Department for Macroeconomic and Fiscal Analysis and Projections of the Ministry of Finance, which prepares macro-fiscal forecasts, and high level costings for major policies, that are incorporated in the Fiscal Strategy, which is not sufficient for accurate medium-term budgeting, as it potentially misses some important information on spending drivers and realistic costings of most policies.

The fiscal framework should be based on a well-defined baseline forecast, based on a no-policy change projection, against which policy measures can be defined. Baseline expenditure projections are best prepared by the line ministries, as they have the greatest access to relevant information. Preparation of these estimates should follow this guidance and focus on the identification of continuing needs, analysis of major changes in the cost of providing services, analysis of the major changes in volume of services provided over the medium term, changes in spending profiles and the impact of new policy measures.

The preparation of medium-term expenditure costing for all measures and policy proposals is a key element of the Medium-Term Budget Framework and it requires an analysis of impacts of policies over the longer-term, and their use acts as a discipline for decision makers from agreeing to policies without acknowledging costs that may grow significantly over time, leading to unsustainable fiscal policies. They also demonstrate the impact of policy changes against the baseline expenditure projections to meet the fiscal rules. Costing needs to be prepared for all new policies, changes to existing policies, and alterations to eligibility criteria or assistance rates of existing transfer or social security programs.

Policy costing should provide financial costing of new policies over the three-year period as well as a range of other information.

The deficiencies will be addressed by developing a joint methodology for preparing baseline estimates and costings. This methodology will enhance authorities' understanding of past fiscal developments as it allows distinguishing between the impact of newly adopted policies and a changed environment, which will increase transparency and improve the accuracy of medium-term expenditure forecasts, thereby providing a better estimate of the available fiscal space/gap. This is important information on which political decision makers will base their decisions on prioritizing between different policies choices. The methodologies will also provide an agreed starting point for budget negotiations, which should reduce the spending pressures identified over the budgetary cycle. Finally, a methodology for Mid-Term Institutional Planning will be developed in order to improve coordination and alignment of budget planning and execution of budget beneficiaries with public policy planning process.

The introduction of program budgeting means that bottom up baseline projections could be made at the program level, rather than ministerial or program activity/project. Thus, for each program within a ministry, there will be projections of the major economic line items (e.g. wages and salaries, goods and services) that link with the macroeconomic parameters provided by the Department for Macroeconomic and Fiscal Analysis and Projections of the Ministry of Finance.

The 2015 Budget was presented to the National Parliament after the deadline. Budget Beneficiaries did not provide the Ministry of Finance with information on contingent liabilities, and separation of costs of existing and new policies in the Budget even though this is required by the Law.

Not all public investment projects have previously been subject to cost-benefit analyses or prioritized accordingly, and lacking of comparative information for the current year. Linkages between Government policy objectives and the budget, non-financial performance information were lacking, as well as long-term projections of total revenue and expenditure.

External financing based on legal agreements with the Government is, in most cases, not included in the Budget, although some improvements were observed in 2015. In cases where such financing is included in budget execution reports, its completeness and reliability has not been testified and this adversely impacts the comprehensiveness and credibility of the budget.

Medium term capital investment planning was introduced in 2013, and further improvements are planned in this area by the Government in 2016, aiming to improve harmonization of procedures for planning, evaluation, selection of all public investment projects regardless of the source of financing (national and local budgets, EU funds and other sources) and reporting. This process will take into consideration the ongoing activities in the framework of the National Investment Committee (NIC), established in 2014 in the Republic of Serbia.

The Public Policy Secretariat of the Republic of Serbia has initiated a coordinated effort to reconcile the diverse approaches between the institutions that have a role in public policy management, reconciling the differences in a proposed package of new legislation, which includes the draft Law on the Planning System, a draft Decree on the Methodology for Public Policy Management, Policy and Regulatory Impact Assessment and content of individual Public Policy Documents, and a Methodology for Mid-Term Planning.

The draft Law on the Planning System aims to establish a framework for overall planning in the Republic of Serbia and to create the basis for achieving full efficiency in the integration of development planning and the financing of capital investments into the integral national planning-budgetary framework. It will also provide for the alignment of institutional responsibilities, which

will altogether ensure an adequate monitoring and evaluation of the usage of various funds regardless of their source.

The national co-financing parts for Instrument for Pre-accession Assistance (IPA) programs are shown at the expenditure line item level for individual Budget beneficiaries although the IPA funding is not (except in case of contracts being implemented through decentralized management for which IPA funding is included), which means that a significant proportion of public expenditure is being omitted from the Law on Budget.

In an ideal situation, all donor funds should be included in both the approved budget and budget execution to ensure comparability between the two and comprehensiveness and accuracy of documentation. There are ongoing consultations between relevant bodies in order to establish a method on how to record transactions through the FMIS system related to IPA funds for contracts implemented in decentralized management (in line with existing limitations possible solutions which are currently being considered is to enable recording of transactions related to IPA funds through periodical bookkeeping orders as instructed by the Treasury Administration). Going forward, the national authorities, namely the Ministry of Finance and the European Integration Office will engage in consultations with the donor community in order determine to what extent their planning and implementation policies could be streamlined and aligned with the national budget process and Budget Calendar in order to gradual expand ensure the inclusion of all public funds as defined by the Budget System Law, into the national budget and budget execution documentation. Further alignment of planning of public funds irrespective of their sources will contribute to achieving a better focus, pooling and joint financing of national policies and programs/projects.

The National Convent on the EU, a permanent body for thematically structured debates on Serbia's accession to the European Union, between representatives of the government, political parties, NGOs, experts, syndicates, private sector and representatives of professional organizations organized a presentation of a Policy Analysis Paper on the Institutional Models for Managing Cohesion Policy –proposal of the model for Serbia, on September 23rd, 2015. While the high level recommendations and proposals issued in the paper were broadly acknowledged by the national authorities present, it was suggested that the concept should be further expanded and placed in the current context and reform environment in order to add more credibility to it. Nevertheless, certain conclusions have pointed to actual gaps which the Government of the Republic of Serbia has been focusing special attention on during the previous period in an attempt to reconcile different approaches between Government bodies despite a clear and straightforward differentiation in legal mandate.

The success in the implementation of this pillar relies solely on the coordinated efforts of the Budget Department at the Ministry of Finance, the Public Policy Secretariat of the Republic of Serbia and the European Integration Office who current have divided responsibilities in the fields of policy planning and planning and programming of public funds in the Republic of Serbia.

The Budget Department has a wide range of responsibilities and a limited number of staff over the previous years to carry out their scope of work in an efficient manner. Like the Department for Macroeconomic and Fiscal Analyses and Projections, it has been the subject of numerous recommendations in the past emphasizing the need to further strengthen its capacities for the diverse scope of work which has increased over the last few years. With the intent of ensuring the minimal operational capacities within the Budget Department, the management of the Ministry of Finance has taken steps to strengthen its capacities by increasing the number of staff in August 2015 in accordance with the Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance, and to ensure a prompt procedure of filling the remaining job vacancies.

The Public Policy Secretariat of the Republic of Serbia was established in April 2014, taking over a large proportion of the Policy Coordination role which was carried out by the General Secretariat of the Government in recent years. The latest amendments to the Rules of Procedure of the Government precisely define the role of the Public Policy Secretariat in the legislative process, on the one hand, and in the process of strategic and operational planning and coordination of public policies. At present, the Public Policy Secretariat employs 30 people, while the Job Description Act envisages the employment of 52 people in total.

According to the Decree on establishing **the European Integration Office**, this Government service carries out two distinctive, yet complementary groups of activities. On one side, it coordinates and facilitates the efforts of the Government in accession process to the EU and on the other, it carries out the function of planning, programming, monitoring and reporting on EU and bilateral donor assistance, a function which was taken over from the Ministry of Finance in 2010. The staffing levels at present are sufficient and have been ensured due to high level Government commitment as the Office provides for coordination and the operational support to the Government in the EU accession.

In order to address the identified deficiencies the process of planning public funds at the central level and to ensure the budget is formulated in line with the national legal framework, with comprehensive spending appropriations that are consistent with the Medium-Term Budgetary Framework¹, the Government of the Republic of Serbia has defined the following set of objectives as to ensure a sound planning and budgeting of public expenditure.

4.2.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 2		
TO IMPROVE THE COVERAGE OF THE NATIONAL BUDGET		
RESULT	ACTIVITY	TIMEFRAME
2.1 Institutional coverage of the national budget expanded	Gradual and systematic inclusion of own sources and budget beneficiaries into the national budget	4 th quarter 2020
2.2 Expanded coverage of external sources of funding in the national budget	Gradual and systematic inclusion of donor assistance in the national budget and budget execution documentation	4 th quarter 2020
MEASURE 3		
TO FURTHER IMPLEMENT MULTI-ANNUAL PROGRAM BUDGETING ACROSS ALL LEVELS OF GOVERNMENT		
RESULT	ACTIVITY	TIMEFRAME
3.1 Improved process of program budgeting	Procurement and customization of software for the management of public finances, which connects the planning, execution and control	4 th quarter 2016
	Customization of the software for the management of public finances in order to ensure the appropriate interface with the module for Public Policy Planning	2 nd quarter 2017
	Process analysis, monitoring and control of program budgeting and identify recommendations for improvement	1 st quarter 2016
	Improving the methodology of the program budget and preparation of the new guidelines in accordance with the recommendations	2 nd quarter 2016
	Conducting training for civil servants to improve the program budget	2 nd quarter 2016
	Implementation of the budget cycle for 2017 in line with the improved methodology	2 nd quarter 2016

¹ In line with Public Financial Management Principle 2. "The Principles of Public Administration", SIGMA, OECD, 2014.

MEASURE 4	TO IMPROVE CAPITAL PROJECTS PLANNING	
RESULT	ACTIVITY	TIMEFRAME
4.1 A single platform for Capital Projects Planning and methodology for public investment analysis and planning established.	Evaluation of proposed public investment projects by budget beneficiaries and drafting an implementation plan	4 th quarter 2016
	Monitoring the implementation of approved capital projects and proposing measures to improve the planning and implementation of public investment project	2 nd quarter 2017
	Harmonization of procedures for planning, evaluation and selection of all capital projects regardless of the source of financing (national and local budgets, EU funds and other sources) and reporting	4 th quarter 2016

MEASURE 5	TO IMPROVE BUDGET PLANNING	
RESULT	ACTIVITY	TIMEFRAME
5.1 Improved data on the fiscal impact of legislative initiatives	Develop methodologies for medium-term baseline estimates and costing of new policies, set up the legislative framework and provide training	4 th quarter 2018
5.2 Improved planning of public funds through increased alignment/respect with the Budget Calendar	Improved coordination and alignment of planning and programming of external assistance with the Budget Calendar	4 th quarter 2020
5.3 Improved Mid-Term Planning of the budget beneficiaries through increased alignment with the Methodology for Mid-Term Institutional Planning	Improved coordination and alignment of budget planning and execution of budget beneficiaries through compliance and alignment with the Methodology for Mid-Term Institutional Planning	4 th quarter 2018

MEASURE 6	TO IMPROVE THE OPERATIONAL CAPACITIES FOR PUBLIC INVESTMENT COORDINATION AND BUDGET PLANNING	
RESULT	ACTIVITY	TIMEFRAME
6.1 The operational capacity of the Budget Department improved	Implement an institutional strengthening process of the Budget Department, and increasing its staff to increase its operational capacity and performance on budget preparation and coordination, on monitoring budget execution and in compiling detailed budget execution reports	2 nd quarter 2016
6.2. Analytical and Planning units in Public Administration Bodies introduced to support budget planning linked to policy planning	Implement an institutional strengthening process of public administration bodies (ministries and their departments/administrations/inspectors, special organizations and governmental services) for conducting necessary analysis, planning and budgeting by introduction of analytical and planning units	4 th quarter 2017

4.3 EFFICIENT AND EFFECTIVE BUDGET EXECUTION

4.3.1 MAIN DEVELOPMENTS AND STATE OF PLAY

The increase in the Government's revenues is one of the major fiscal consolidation measures of the Government of the Republic of Serbia, and an important element of the IMF Program. It requires improvements in tax policy and administration in order to achieve efficient and effective management of tax revenues.

The scope of responsibilities of the **Tax Administration** of the Republic of Serbia is defined in the Law on Tax Proceedings and Tax Administration. Moreover in June 2015 the Tax Administration Transformation Program was adopted for the period 2015 – 2020, which sets the improvement of efficiency and effectiveness of business processes and increased level of revenue collection, quality improvement and cost reduction of services, modernization of infrastructure and working environment as its objectives.

There are 6,470 job positions systematized at the Tax Administration. In accordance with the Tax Administration Transformation Program there will be significant changes aiming to enhance organizational structure and improve human resources management and IT resources in line with the EU requirements.

In the Progress Report for 2014 the European Commission has acknowledged progress in the field of taxation, even though further alignment of the rules concerning excise goods is recommended, together with measures for tackling the informal economy, including the simplification of tax procedures and reducing and monitoring the discretionary powers of Tax Inspectors.

In addition to that, the 2015 PEFA Assessment observes the need for revenue collection agencies to effectively promote voluntary compliance, as even with the existence of comprehensive tax laws, guidelines, and procedures, tax-payers continue to have a perception of discretionary decisions by tax agencies during audits.

There is a need for Tax Administration Offices to improve their engagement with tax payers by establishing dedicated Taxpayer Service Units in order to improve communication and interaction with taxpayers, including providing timely updates on changes in legislation.

Although more clarity of the tax legislation will promote voluntary compliance, the tax agencies legal enforcement capabilities also need to be streamlined. In particular, the processes of keeping updated the registration of taxpayers by linking the Tax Administration Registration System to other registration systems will enhance its capabilities to implement enforcement activities especially by targeting those taxpayers breaching tax regulations.

Implementing penalties for either non registration or non-compliance of tax obligations are of critical importance to ensure the fulfillment of tax obligations. From the revenue collection and the PFM perspective, getting more accuracy over the tax base will enable tax collection as planned and improve the tax revenue forecasting.

Strengthening risk management based on good practices is also critical to promote voluntary compliance in all tax agencies through the effective use of intelligence information.

The Treasury Administration of the Republic of Serbia is an administration within the Ministry of finance, established by the Budget System Law, is in charge for financial planning, managing funds of the Republic of Serbia, liquidity management, expenditure control according to annual appropriations, program budgeting reporting, budgetary accounting and reporting, establishing and maintenance of Treasury IT system, public payment and centralized payroll.

Its primary role is that of managing public funds of the Republic of Serbia. Treasury functions are organized throughout the territory of the state, with 34 regional offices and 111 local offices. The most of the communication between the Treasury Administration and its users is taking place through customer service over the counter, working with cash, public payment processes, and dinar accounts of public institutions and archiving of all the documentation. It involves great number of stakeholders which require constant support, and the quality of services will be improved in order to meet European standards.

The Treasury Administration approves monthly quotas for each month for the period until the end of budget year based on their estimated cash needs.

Entering into multi-annual commitments/contracts is subject to Government's approval and the Budget System Law prescribes that Public Fund Beneficiaries can enter into such commitments up to the multi-year expenditure ceiling defined in the Fiscal Strategy.

In order to improve commitment control and cash management until the end of first quarter of 2018 the Treasury Administration will improve adequacy of approved budget allotments through instituting procedures which will enable the Ministry of Finance to assess the reliability of reported cash needs by users of public funds. In addition to that till the end of 2018 the Treasury Administration envisages to enhance control over multi-annual contractual commitments.

Customs Administration is important element in the revenue collection aspect. The Customs Administration of the Republic of Serbia, as an administrative body within the Ministry of Finance, responsible for customs clearance, customs control and other tasks of processing passengers and transport of goods and services abroad, and other activities specified by the law. The Department for the collection of budget revenues, performs realization of revenue collection from customs and other import duties and interest for late paid debts; realization of guarantee as measure to collect budget revenues; and informing authorities about the total of revenue collection and has 14 employees.

Most relevant legislation for the functioning of the Customs Administration is the Customs Law along with related Bylaws and Regulations.

The current Business Strategy for Customs Administration 2011 – 2015 specifies ensuring modern and efficient revenue collection as one of its eight goals. Customs Administration is continuously taking measures to improve the system of revenue collection; improve IT support; ensure full implementation of a risk analysis and post clearance control; collect excise duties in the internal market; further develop simplified procedures; improve anti-corruption measures and measures against customs, tax and currency violations; further develop and equip the Central Customs Laboratory.

Furthermore, since beginning of 2015 the New Computerized Transit System (NCTS) is in the process of being fully implemented. Even so, further efforts need to be invested in order to upgrade the administrative capacity and ensure full alignment with the *acquis* and EU standards, such as the Customs Declaration Processing system and all other relevant subsystems in order to ensure the

proper functions of all e-Customs systems. Additional resources need to be invested in ICT infrastructure, hardware and communication in order for the Customs Administration to meet all requirements of the European integration. Until the end of 2018 it is envisaged to implement the ERIAN – Risk management system for electronic risk analyses as an expert system module whose goal is an on-line evaluation of declarations processed by the declaration processing systems according to specification of risk profiles in line with ERIAN repository of risk profiles, to upgrade anti-corruption measures.

The Public Debt Administration is an administration within the Ministry of Finance and its main activity is borrowing on domestic and international financial market through government securities and loans in order to finance budget deficit, projects and to repay existing public debt and other liabilities. The Public Debt Administration was established and operates in line with the Public Debt Law.

According to reports of several technical missions conducted by the relevant international financial institutions, one of the key recommendations is related to improving the operational capacity of the Public Debt Administration, in order to improve public debt management in general.

In order to address this issue a new organizational structure of the Public Debt Administration was adopted in August 2015 aiming to align with the best existing standards in relation to public debt management practices. Additional measures were taken by the Ministry of Finance to increase the staffing levels of Public Debt Administration by transferring staff and increasing the number of job positions, and trainings for the staff will be conducted in order to improve its HR capacities.

In order to improve efficiency and effectiveness of the Public Debt Administration further improvements in legal framework, systems, procedures and ITC base will be introduced in this area. Namely, until the end of first quarter of 2017 improvements of legal framework for financial derivatives transactions is envisaged, preparation of legislation related to the asset under management procedures and by-law for monitoring of projects loans. At the same time, further improvements will be introduced, such as public debt management software, development and implementation of the methodology for carrying out long term public debt sustainability analyses, as well as new organization of Governments securities primary market by introducing the primary dealers system, and finally establishment of new system for monitoring of project loans.

The Public Procurement Office (PPO) was established as an independent governmental agency with the mandate to establish a sound procurement system, and prepare procedures that would ensure that public funds are spent in an efficient and transparent way, thus complementing government's overall drive in containing corruption. The aim of the PPO is to promote knowledge and understanding of Public Procurement Law.

Significant progress as well as alignment in the field of Public Procurement was noted in the previous period, as well as the need to invest additional efforts into upgrading the Public Procurement System and the administrative and technical capacities of the Public Procurement Office.

The new Public Procurement Law which came into effect on April 1, 2013 represents a huge step to bringing the national public procurement system closer to international procurement standards, but more importantly a step forward towards the alignment with the EU Procurement Directives (2004/18). The Law has important objectives of ensuring efficiency and effectiveness, competition and transparency and preventing corruption and other abuses in the public procurement process.

In addition to that the Government adopted a Public Procurement Strategy for 2014 – 2018 and an Action Plan for 2015 on October 30, 2014.

In spite of the achievements up to date, there is still room for further improvement. For example, greater transparency and accountability would be achieved by a clear obligation in the Law to publish procurement plans and reports on the Public Procurement Office Web Portal.

The recent amendments include the obligation of contracting authorities to announce procurement plans and reports on the Public Procurement Portal as of January 1, 2016, as well as contract awards.

The Law defines sanction policies and procedures for companies that use inappropriate practices during the procurement process. The procedure for giving “a negative reference” is very complex and responsibility for investigation and obtaining proof for negative reference is mainly on the contracting authorities, who do not have capacities to fulfill this task. In cases where the cost estimate of the public procurement procedure exceeds RSD 1 billion (approximately EUR 8.5 million) the Law requires mandatory supervision by a Civil Supervisor. However, the Law is silent on aspects related to: remuneration of civil supervisors, potential or actual conflict of interest with bidders, establishment of a pool of civil supervisors, etc.

While the Law provides for the use of Electronic Auctions and even prescribes its mandatory application in some cases, it fails to deal with security challenges and bottlenecks in the capacity of both, bidders and contracting authorities. An e-procurement platform has not yet been developed to support these requirements.

Success of the activities under this pillar will strongly depend on improvements to the Budget System Law, and on the functionality and roll out of supporting IT systems. In this respect there has been an on-going consultation between all the relevant services in the Ministry of Finance with the IMF (Fiscal Affairs Department (FAD) regarding the improvements of the Budget System Law in the following period in line with the EU requirements.

In summary, in order to ensure effective revenue collection, budget transparency and scrutiny, centrally controlled cash liquidity, harmonized public procurement regulations with the EU *acquis* and corresponding regulations, the necessary institutional and administrative capacity to develop, implement and monitor procurement policy effectively and efficiently, full compliance of public procurement operations with the basic principles of equal treatment, nondiscrimination, proportionality and transparency, while ensuring the most efficient use of public funds and making best use of modern procurement techniques and methods, and an appropriate remedy system which aligned with the EU *acquis* standards², the following set of measures and activities have been defined to improve the efficiency and effectiveness budget execution.

² In line with the Public Financial Management Principles 3, 5, 10, 11, 12 and 13. “The Principles of Public Administration”, SIGMA, OECD, 2014.

4.3.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 7	TO IMPROVE REVENUE COLLECTION	
RESULT	ACTIVITY	TIMEFRAME
7.1 Tax Administration Transformation Strategy implemented	Strengthening management and the basic Tax Administration functions, improving organizational structure and business processes, improving services to tax payers	4 th quarter 2020
7.2 Voluntary compliance with tax legislation, guidelines, and procedures improved	Perform an analysis of (i) the legislation, including criminal legislation, guidelines, and administrative/operational procedures; (ii) information to assess tax liabilities; and (iii) impediments to contest administrative ruling on tax liability which need to be clarified.	4 th quarter 2017
	Review the Tax Auditors' workflow and standard operating procedures to verify if their functions and prerogatives are clear in order to minimize discretionary decisions.	1 st quarter 2017
	Improve clarity and usefulness of tax liabilities information by establishing a dedicated taxpayer services Department/unit within the STA.	4 th quarter 2017
7.3 The Customs system improved and modernized	Implementation of ERIAN (Risk Management System), an expert system-module whose goal is an on-line evaluation of declarations processed by the declaration processing systems according to specifications of risk models (Risk profiles) created by risk analysts in ERIAN repository of risk profiles.	4 th quarter 2018
	Upgrading anti-corruption measures	4 th quarter 2018
	Modernizing the Customs Laboratory	4 th quarter 2018
7.4 The appeals mechanisms are improved	Conducting a review of the independent appeals function. The main outcome of this activity should be: (i) establishing an M&E system for appeal cases and (ii) providing means for the dissemination of resolutions including the elapsed time, and the number and size of cases	4 th quarter 2018
7.5 The appropriate links between different databases within Tax Administration and between the Tax Registration System and other registration systems established	Processes mapping of the existing links among the Tax Administration and other registration systems and financial sector regulations, assessment of the ICT capabilities to interconnect different registries online; and preparation of a roadmap and timeline to address issues.	4 th quarter 2017
	Assessment of internal procedures at Tax Administration to control and ensure that the Tax Registry is regularly updated	4 th quarter 2017
	Establishment of IT systems(EIS) in connection to the process of EU integration (requests of Chapter 17)	4 th quarter of 2020
7.6 More effective penalties system for non-compliant registration and declaration obligations developed	Revision and updating of the legislation, including Criminal legislation, regarding penalties for non-complaint registration and declaration obligations.	4 th quarter 2018

RESULT	ACTIVITY	TIMEFRAME
7.7 Improved risk management practices	Implementation of the annual control plan based on identified risks and streamlining of headquarters control over the control plan focusing on large taxpayers improving the “strike rate” reviewing the allocation of auditors in order to ensure an optimal distribution of skills and implement an M&E system to enable managers to monitor performance.	4 th quarter 2017
	Implementation of the annual audit plan based on the risk management criteria for the selection of cases for green, yellow, and red lanes, by improving risk profiling for authorized operators, implementing a quality control mechanism to ensure that the risk criteria have been properly applied at borders and an M&E system to enable managers to oversight performance.	4 th quarter 2017
7.8 Improved tax arrears and control information systems and oversight	Improve the control mechanisms to get updated information about arrears. Implement more effective late payment penalties in order to encourage on time payments. Implement an ITC system to support the debt management function.	1 st quarter 2018

MEASURE 8		
TO IMPROVE COMMITMENT CONTROL AND CASH MANAGEMENT		
RESULT	ACTIVITY	TIMEFRAME
8.1 Adequacy of approved budget quotas ensured and cash flow planning improved.	Instituting procedures which would enable MOF to assess the reliability of reported cash needs by users of public funds, with the view to ensuring adequacy of budget quotas and aggregate cash requirements and strengthening the daily, monthly quarterly cash flow planning.	1 st quarter of 2018
8.2 Enhanced control over multi-annual contractual commitments	Analysis and implementing a systematic approach to approve records and monitor multi-annual contractual commitments.	4 th quarter of 2018

MEASURE 9	TO IMPROVE THE CAPACITIES FOR PUBLIC DEBT MANAGEMENT	
RESULT	ACTIVITY	TIMEFRAME
9.1 Designed and implemented public debt management software	Procurement, design, customization and implementation of software for the public debt management including an appropriate model to improve public debt risk management, scenario analyses, stress tests and other relevant analyses	1 st quarter 2017
9.2 Established methodology for long term public debt sustainability analyses	Development and implementation of the methodology for carrying out long term public debt sustainability analyses	1 st quarter 2017
9.3 Primary dealers system introduced	Creating and implementing the new organization of Government securities primary market by introducing the primary dealers system	1 st quarter 2018
9.4 By-law for financial derivatives transactions adopted	Preparation of documentation and implementation of legal framework for financial derivatives transactions	1 st quarter 2017
9.5 Asset under management procedures established	Strengthening capacity and preparation of legislation related to the asset under management	1 st quarter 2017
9.6 Adopted by-law for projects' loans monitoring	Monitoring of projects' loans – establishing of new system	1 st quarter 2017
9.7 More capable Public Debt Administration staff	Conducting training for civil servants to improve the human capacity of the Public Debt Administration	1 st quarter 2018

MEASURE 10	TO IMPROVE PUBLIC PROCUREMENT LEGISLATION AND PROCEDURES	
RESULT	ACTIVITY	TIMEFRAME
10.1 Procurement planning transparency improved	Mandatory publication of procurement plans on the Public Procurement Portal.	4 th quarter 2016
10.2 The Public Procurement system is functionally and operationally upgraded	Provide training for officials and decision makers on Public Procurement Procedures	4 th quarter 2016
	Training/specialization of prosecutors and judges in public procurement area and more efficient investigation and sanctioning of irregularities in public procurement by judiciary.	4 th quarter 2016
	Implement an institutional strengthening process of the Public Procurement Office in order to increase its operational capacity	4 th quarter 2016

4.4 EFFECTIVE FINANCIAL CONTROL

4.4.1 MAIN DEVELOPMENTS AND STATE OF PLAY

In the short and medium-term, the Republic of Serbia is facing a number of control and accountability related challenges over the use of its public resources. Foremost of these are mechanisms to preserve budgetary discipline over execution of the annual government budgets, whether central or local, in order to prevent expenditure drifts and resulting budget deficits. Beyond immediate issues of controlling commitments and arrears, effective controls for curbing annual and multi-annual spending are crucial for ensuring adherence to the established fiscal rules and underpinning overall budget credibility over the medium-term horizon.

Likewise, important issues related to the introduction of program budgeting include controlling and managing performance of the established programs and ensuring that funds are spent in fulfillment of the stated objectives.

Internal controls need to be reliable, reasonable and risk-based. Reliability of controls is already grounded in statutory alignment with internationally recognized standards. Improved risk management practices will help streamline the controls into the most relevant areas to address the risks of not achieving its objectives relating to operations, reporting, and compliance.

In the period ahead, greater emphasis will be placed on incorporating the internal controls standards into the entity-wide controls in the public spending units. Entity-wide controls affect multiple processes and transactions across the five components of the adopted internal control framework, including controls related to the control environment, controls over management override, organization's risk management process, controls to monitor results of operations, controls to monitor other controls (including activities of the internal audit function and self-assessment programs), and policies that address significant business control and risk management practices, among others.

Managerial accountability as one of the cornerstones of PIFC requires that managers are accountable for their "decisions, actions and results to those who have appointed or assigned the responsibility to them." The current situation regarding the managerial accountability (MA) as a legal obligation of managers of all level in all public fund beneficiary institutions to execute their tasks and responsibilities in a lawful manner observing the principles of efficiency, effectiveness, and transparency, and to report on actions. Conversely, to be considered accountable, public sector managers need to be granted greater authority and flexibility over management of budget resources on the level of budgetary beneficiaries. This will be challenging under the detailed level of current budgetary control over inputs. Introduction of managerial accountability will imply a shift in focus from control of budget allocation to a focus on budget management and improved public service delivery.

With regard to controlling and managing performance within the established programs, limited resources of the State Audit Institution (SAI) for performance audit should be compensated by incorporating ex-ante and intermediate program evaluations to measure its achievements against the objectives in the internal control systems established by the management. In these considerations, it should be kept in mind that reliable and meaningful information is essential for control. Consistency and quality of information affects the work of internal and external controls alike, determines the quality of findings and recommendations.

The EC has remarked that good progress has been made in the field of Regional Policy and Coordination of Structural Instruments as the Republic of Serbia is in the process of acquiring experience in the management of EU funds under decentralized and indirect management. Adequate implementation still needs to be ensured for both, IPARD implementation and the preparation for the use funds from the European Social Fund. Financial Management, Control and Audit systems have been further developed to comply with the requirements for indirect management, whilst the status, position and capacities of the Audit Authority Office of EU funds need to be revisited and further developed to ensure full functionality.

While overall progress has been acknowledged in the area of financial control, considerable efforts are still required for the full implementation of Public Internal Financial Control. A new PIFC Strategy for the period 2016 – 2019 needs to be adopted and the Anti-Fraud Coordination Service(AFCOS) needs to be fully operational.

In general, the Republic of Serbia has made slow but steady progress in implementing Public Internal Financial Control that is plugged in line with COSO framework. This is primarily reflected in a comprehensive legislative framework which is largely aligned with best European practices. Nevertheless, the EC Screening Report on Chapter 32 – Financial Control calls for improvements of the implementing PIFC legislation by strengthening the links with the Budget System Law and making the managerial accountability further operational in practice.

Furthermore, Managerial Accountability will be further elaborated as part of the amendments to the Financial Management and control (FMC) Rulebook and FMC Manual in order to clarify and clearly reflect the role of FMC across the five COSO components to ensure a systematic approach in implementing internal control across the Serbian administration.

The principal focus of **the Department for Internal Control and Internal Audit** at the Ministry of Finance (**the Central Harmonization Unit - CHU**) has been on improving the Control Environment by setting up the legislative framework, issuing methodological guidance and providing on the spot training to high and operating-level FMC with regards to improving and enforcing Control activities. In accordance with the the new Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance from August 2015, the CHU have systemized 13 job positions, out of which are 4 vacant positions.

Notwithstanding the evident benefits, the CHU should realign its focus in order to become the “strategic driver” for improving and developing the FMC and IA systems. In order to do so, the CHU needs to optimize the current focus on training and move towards issues of networking and coordination, assessing the quality of FMC and IA systems and identification of systemic issues, and working with different counterparts in addressing those.

The development of PIFC is closely interdependent with developments in the budget system and overall of the Public Administration Reform. With the introduction of program budgeting, the practice promoted under the PIFC concept will need to expand from ensuring fiscal discipline and compliance into areas of efficiency and effectiveness. The PAR Strategy likewise encompasses a number of areas that will further shape the control environment for implementation and development of PIFC³. It is therefore imperative to proceed with further development of PIFC as an

³ Such as improvements to the organizational structures, planning and coordination which support accountability arrangements (discussed in “III.A Improvement of Organizational and Functional Systems of Public Administration”) or strengthening of the ethical standards (discussed in „III.D: Increased Transparency, Improvement of Ethical Standards and Accountability in Performing the Work of the Public Administration“).

integral part of PFM system in the Republic of Serbia. Without this understanding, the risk of misperception of PIFC as a stand-alone technical reform remains high.

The draft PIFC Strategy⁴ addresses a number of the issues identified above, namely: coordination, monitoring, cooperation and networking with other institutions, embedding FMC into various segments of the budget cycle, and quality control. Still, reference to wider PAR agenda and budget system reforms could be made more explicit and the policy paper should reinforce the priorities foreseen under those processes.

As discussed in the EU Screening Report for Chapter 32, integrated development of PIFC would benefit from high-level, inter-institutional body to analyze the annual CHU reports prior to submission to the Government, provide relevant inputs into the annual plans for the implementation of the PIFC policy paper, follow up on the Government recommendations in the area of PIFC and advise on PIFC implementation. This body⁵ could ensure that the development of PIFC is coordinated with developments in the budget planning and execution, activities in the PAR Strategy and activities on preparation of institutions for implementation of the EU pre-accession funds.

The Internal Audit function has been significantly strengthened by provision of training and certification by the CHU. Its further development will depend on the progress achieved in the area of FMC and budget system reforms. In the absence of sound Risk Identification and Management, there is a threat that the work of the internal audit function may not achieve its full potential for system-based auditing. Likewise, in the context of introduction of program budgeting and shift to examinations of efficiency and effectiveness, internal auditors can provide added value through program evaluation (provided adequate methodologies and training). In the medium-term, options for more rational set-up and effective use of internal audit resources should be explored. This will improve effectiveness and reinforce the role and usefulness of internal audit as a management tool. Measures foreseen in the draft PIFC policy paper (e.g. horizontal and vertical audits) support this course of development.

Practical implementation of FMC and Internal Audit (IA) has progressed but the progress appears uneven across different institutions as evidenced by the Audit Reports of the SAI.

The SAI and the CHU set up a joint working group for the development of cooperation activities. The objective of the working group is to enhance cooperation regarding the issues of common interest for the SAI, CHU and the internal audit units.

In line with the activities aimed at streamlining the planning and programming of all public funds to the maximum possible extent, given the specificities of donor procedures, with the aim of streamlining the national budget system and providing for a single consolidated system for public financial management, special attention will be focused on streamlining the management and control of EU Pre – Accession Assistance and national budget funds in order to provide a sound basis for future management of structural instruments.

A proposal for such a measure was proposed in the aftermath of the explanatory screening meeting for Chapter 32 – Financial control, and further elaborated and discussed with the relevant services of the European Commission. SIGMA was consequently invited to perform an assessment of the institutional and administrative capacities for streamlining the management and control system for

⁴ Draft Strategy for Development of Public Internal Financial Control 2016-2019, from October 2014.

⁵ Possibly involving representatives of the Ministry of Finance (CHU, Budget Department and Treasury Administration), Ministry of Justice and principal authorities involved in implementation of the pre-accession EU funds.

indirect management of IPA II and the current financial management and control system established by public fund beneficiaries as part of the PIFC reform.

This represents a key medium to long term reform activity as it aims to ensure that public fund beneficiaries have an appropriate internal control system and internal audit function in place which would guarantee that these institutions can execute their approved budgetary and other financial allocations in an efficient and effective manner in line with the principles of sound financial management, which apart from efficient and focused planning around identified and agreed priority policy measures will not only ensure a higher level of ownership but also optimum absorption capacity which the Republic of Serbia has lacked in over the previous years due to unconsolidated planning of public fund and the execution of different sources of public funds through different management and control platforms.

In order to achieve this, the legislative framework regulating financial management and control will be improved and strengthened with elements and instruments applied in the current parallel system for indirect management of IPA II which it will supersede shortly after Serbia's accession to the EU and the phasing out of EU Pre – Accession assistance.

At present, the Department for managing EU funds (previously the National Fund Department for Managing EU Funds) is working closely with the CHU in this regard whilst at the same time ensuring the system for managing EU Pre – Accession Assistance under indirect management is fully operational and functional.

The department has undergone a capacity building and institutional strengthening process and the full number of systematised job positions, as foreseen by an updated workload analysis, will be filled by the end of the first quarter of 2016.

Simultaneously and in line with previous best practice, the Department for Managing EU funds will work together with the line ministries who will be responsible for managing large concentrations of EU funds in the medium term (mainly in the energy, transport and environment sectors) on creating new implementing bodies for EU Pre-Accession Assistance which will possibly take on the role of future Managing Authorities/Intermediate Bodies in structural fund implementation. This will combine expert knowledge and existing technical capacity with implementation skills which will raise absorption capacity and also relieve the existing generic Contracting Authority of an additional burden and the unnecessary duplication of efforts to build technical capacity considering that it is already present in the relevant institutions. This will boost efforts aimed at meeting the requirements under Chapter 22, in line with Directorate General Regional Policy (DG REGIO) recommendations given at the Bilateral Screening Meeting in January 2015 for building the capacities for the implementation of Cohesion Policy in the existing public administration institutions which have the technical and expert capacities. This goes hand in hand with the institutional reforms planned to be implemented within the Ministry of Finance for gradual integration of the financial management, control and accounting functions for EU Pre-Accession Assistance into Treasury Administration this creating the future Certifying Authority for Structural funds, with the capacities created in the Pre-Accession phase and locating them in the proper position within the Serbian administration to provide for full functionality. This point is also elaborated under the following pillar.

The Section for combatting irregularities and fraud in dealing with EU funds (AFCOS) is under the direct authority of the Minister of Finance. The institutional position within the Ministry of Finance allows AFCOS the optimal level of functional independence, which ensures smooth performance of

operational tasks. This Section represents the main counterpart of the European Anti-Fraud Office (OLAF) in the Republic of Serbia.

The Section has a mandate to coordinate all legal, administrative and operational activities aimed at the fight against irregularities and fraud, in order to protect the financial interests of the European Union, coordinate activities related to the harmonization of national legislation with legislations of the European Union in the field of protection of EU financial interests. The Section also has the authority to submit the appropriate notifications to the competent authorities and institutions of which the AFCOS network consists as well as providing guidance and support to the competent authorities in the AFCOS Network for prevention of irregularities and fraud with the purpose of collecting evidence, determining the facts and procedures in order to sanction misuse of EU funds. The Section monitors the progress of the investigation and court proceedings related to cases of proven fraud and reports to the European Anti-Fraud Office (OLAF) about the aforementioned and keeps a register of proven irregularities. There are currently two employees in AFCOS, but in line with the new Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance increase to five job positions is foreseen.

The Unit for Budget Inspection in the Ministry of Finance is an independent unit. The new Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance from August 2015 has almost doubled the number of job posts to 16, out of which 14 posts are for inspectors.

The Budget Inspection of the Ministry of Finance (as a mechanism for ex-post control focusing on compliance of individual transactions) remains an important tool for improving financial discipline and managing irregularities. Its operations need to be improved in line with the observations contained in the EU Screening Report for the Chapter 32, primarily in terms of planning of its work.

In the parallel development of internal control, internal audit and budget inspection there is a risk⁶ that these elements are not distinguished in terms of their respective purposes and roles. Further awareness rising, especially among senior management, is foreseen in the PFM Reform Program.

The Audit Authority for EU Funds of the Republic of Serbia was established by a Decree issued by the Government of the Republic of Serbia on 2 June 2011. In cooperation with other public administration bodies, the Audit Authority performs professional tasks for the Government, which are related to auditing and verification of compliance of the management and control system for managing EU Pre-Accession Assistance, in line with obligations undertaken through the Framework Agreement between the European Commission and the Republic of Serbia.

The Audit Authority for EU funds performs its activities in accordance with internationally accepted audit standards. The current Rulebook on the internal organization and job classification of the Audit Authority Office for EU funds sets out 25 job positions, out of which 18 auditors. From this number, 10 positions are filled (5 auditors, 2 support staff and 3 contracted employees). The process of filling vacant positions of 6 auditors and 1 support staff is ongoing.

As internal control and internal audit represent the corner stone or basic layer of financial control, the implementation of the measures foreseen under this pillar will largely depend on the public fund beneficiaries who are required by law, to implement internal control standards and ensure the necessary capacities for a functional internal audit function. The Central Harmonization Unit at the Ministry of Finance has a leading role in promoting, advising, and improving the internal control requirements and internal audit practice. They will lend their expertise and assist the other

⁶ Noted in the EU Screening Report and SIGMA alike.

stakeholder institutions under the pillar to facilitate further capacity building within its scope of competency and in line with the principals of segregation in the field of financial control.

With the aim of facilitating the further implementation of internal control in line with the COSO model, the CHU will focus its activities on improving the control environment, providing advisory assistance to public fund beneficiaries in the Republic of Serbia with regards to strengthening their internal control activities and improving communication within entities, whilst at the same time, working with the high level executives and other staff within public beneficiary institutions to strengthen risk identification and management to decrease the exist risk levels to the achievement of their mission, strategies and objectives.

Therefore, in order to ensure effective financial control within an operational framework for Financial Management and Control and Internal Audit within which Public Fund Beneficiary institutions implement internal control and internal audit in line with the overall policy documents⁷, efficient and affective Financial inspection services as well as implementing active measures with the aim of ensure full and effective protection of the financial interests of the European Union, the Government of the Republic of Serbia has defined the following set of measures as to ensure efficient financial control and compliance with the EU accession requirements under Chapter 22 – Regional Policy and Coordination of Structural Instruments and Chapter 32 – Financial Control.

4.4.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 11	TO IMPROVE THE STRATEGIC AND LEGISLATIVE FRAMEWORK FOR IMPLEMENTING PUBLIC INTERNAL FINANCIAL CONTROL	
RESULT	ACTIVITY	TIMEFRAME
11.1 Medium term PIFC Development Strategy and Framework prepared and adopted	Implementing the Strategy for the Development of PIFC	4 th quarter 2019
	Reviewing the SIGMA Assessment on the Legal Framework and Organizational and Institutional Capacities for Consolidating the system for Financial Management and Control and Indirect Management of EU Funds under IPA II, establishing a Working Group for the preparation of a Road Map for the consolidation of FMC and the Management and Control System under indirect Management for IPA II,	2 nd quarter 2016
	Establishing a Working Group for the Harmonization, Coordination, Implementation and Monitoring of the Implementation of FMC and IA across public fund beneficiary institutions	4 th quarter 2016
11.2 Improved legislative framework for FMC	Improving and updating the legislative framework including the Rulebook on Common Criteria and Standards for the establishment, functioning and reporting on FMC and the FMC Manual to introduce Management Declarations, add more clarity, update information on Risk Management Procedures and define the system for Irregularity Management	4 th quarter 2016
11.3 Improved capacities of the CHU	Conducting a functional review of the CHU in order to improve its organizational, technical and	4 th quarter 2016

⁷ In line with the Public Financial Management Principles 6, 7, 8 and 9. "The Principles of Public Administration", SIGMA, OECD, 2014.

	administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency.	
RESULT	ACTIVITY	TIMEFRAME
11.4 Assessment of the Quality of FMC improved	Further development of CHU software, customized and adjusted to the operational needs for analysis and preparation of Annual Report.	4 th quarter 2017
11.5 Improved coordination and implementation of training and professional development programs for officials and civil servants on FMC and IA	Reallocation of administrative and logistical activities with regards to the organization of trainings on FMC and Internal audit to the Human Resource Management Service of the Government of the Republic of Serbia	4 th quarter 2016
	Establishing coordination with internal control specialists, the academic community and professional organizations for upgrading training plans and certification schemes	4 th quarter 2016
	Conducting an assessment for introducing international programs for the certification of Internal Auditors	4 th quarter 2016

MEASURE 12	TO ENHANCE THE IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL	
RESULT	ACTIVITY	TIMEFRAME
12.1 Genuine understanding of FMC as a management tool for achieving the strategic goals of the institution achieved	Support managers of public fund beneficiary institutions to achieve a better understanding of FMC and contributes to the implementation of the strategic goals of their institutions through advisory services, workshops and training	Continuous
12.2 Strengthened role of FMC Coordinators and units coordinating Internal Control issues	Provide hands on training and advisory support to FMC Coordinators in drafting Business Process flow charts, assisting them in drafting customized Road Maps for the further implementation of FMC in their institutions and risk management procedures.	Continuous

MEASURE 13	TO SUPPORT THE INTRODUCTION AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION	
RESULT	ACTIVITY	TIMEFRAME
13.1 Genuine understanding of the role and purpose of Internal Audit	Provision of training and advisory services to managers of public fund beneficiary institutions on Internal Audit	Continuous
13.2 Audit scope broadened	Provide customized training to Internal Auditors in IPA beneficiary institutions for audits of EU funded projects implemented through IPA	4 th quarter 2017
13.3 Cooperation between the Internal Audit Units in IPA Beneficiary Institutions and the Audit Authority for EU funds	Develop a systemic approach to cooperation between the IA Units in IPA beneficiary institutions and the Audit Authority for EU funds in order to ensure maximum and reliable audit coverage of EU funded assistance in Serbia	4 th quarter 2017
13.4. Coverage of Certification Program for Internal Auditors in the Public Sector expanded	Develop a systemic outreach approach in order to increase the number of IA auditors at the local level and implement IA Certification programs at the local level and for staff of the AA for EU funds	4 th quarter 2017

RESULT	ACTIVITY	TIMEFRAME
13.5. Optimization of Audit resources achieved	Develop a systemic approach to horizontal audits based on analysis of complexity of audit scope and available resources (i.e. Introducing Groups of Auditors for auditing several public beneficiary institutions or groups of business processes/activities which are common to several/all public fund beneficiary institutions and produce the necessary tools.	4 th quarter 2018

MEASURE 14	TO FURTHER STRENGTHEN THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF THE AUDIT AUTHORITY FOR EU FUNDS	
RESULT	ACTIVITY	TIMEFRAME
14.1 Operational capacities of the Audit Authority for EU funds improved	Prepare and adopt the optimal legislative acts for the (re)institutionalization of the Audit Authority for EU funds	2 nd quarter 2016
	Conduct a functional review in order to improve its organizational, technical and administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency in line with the Framework Agreement for IPA II	1 st quarter 2017
	Ensure the appropriate number of competent staff for executing the scope of responsibility of the Audit Authority for EU fund in line with an updated Workload Analysis	3 rd quarter 2017

MEASURE 15	TO IMPROVE IRREGULARITY MANAGEMENT, COORDINATION AND COOPERATION IN THE PROTECTION OF THE FINANCIAL INTERESTS OF THE EUROPEAN UNION	
RESULT	ACTIVITY	TIMEFRAME
15.1 The appropriate legislative framework for a PIFC compliant Financial Inspection in place	Conduct an assessment of the current legislative framework for the Budget Inspection in order to identify and plug the gaps to ensure full functionality of the Budget Inspection line with the EU requirements and SIGMA recommendations	2 nd quarter 2016
	Prepare and adopt changes to the applicable legislative acts in order to enable a full legal mandate for the Budget Inspection to carry out its scope of competency.	4 th quarter 2016
	Preparation and adoption of a Road Map for integrating the Budget Inspection for National Budget Funds and the AFCOS	4 th quarter 2017
15.2 Improved capacities of the Budget Inspection to carry out the activities within its legal mandate	Ensure the appropriate number of competent staff for executing Inspection Services	4 th quarter 2017

RESULT	ACTIVITY	TIMEFRAME
15.3 Improved capacities of the Section for combatting irregularities and fraud in dealing with EU funds (AFCOS) for performing administrative checks of Irregularity Signals (continued)	Preparation of Operational Procedures for conducting administrative checks of Irregularity signals related to EU funds assistance	3 rd quarter 2016
	Increase the number of staff at the AFCOS	2 nd quarter 2016
	Preparation and endorsement of an Administrative Cooperation Arrangement (ACA) between the Ministry of Finance and OLAF	1 st quarter 2016
15.4 Anti-Fraud Strategy adopted	Preparation, consultation and adoption of a national Anti-Fraud Strategy in line with the accession requirements under Chapter 32	2 nd quarter 2016

4.5 ACCOUNTING, MONITORING AND FINANCIAL REPORTING

4.5.1 MAIN DEVELOPMENTS AND STATE OF PLAY

The major role in this pillar is performed by the Treasury Administration. The Treasury Administration of the Republic of Serbia is an administration within the Ministry of Finance, in charge of budget execution, financial planning, Government cash and liquidity management, budget accounting and reporting, public payment system and operations, fiscal statistics and centralized payroll system.

Its primary role is that of managing public funds of the Republic of Serbia. The Treasury Administration functions are organized throughout the territory of the state, with 34 regional offices and 111 local offices.

Accounting information is comprehensively maintained in the General Treasury Ledger, reflecting the full range of prescribed budget classifications. The accounting system provided by the Treasury Administration enables timely and comprehensive reporting on budgetary transactions for the direct budget beneficiaries covered by the Financial Management Information System (FMIS). The roll out of the FMIS to IBBs will substantially strengthen data coverage and accuracy of the reported figures.

In terms of the accounting standards used in the Republic of Serbia, even though the application of international standards IPSAS has been made mandatory under regulations, in effect, it is the national accounting framework that is implemented in practice. It appears that different pieces of legislation are not consistent between each other (i.e. required financial statements to be prepared to include full Balance Sheet, which is not recommended approach for cash basis of accounting, in particular that existence of appropriate accounting information and ability of accounting system to respond to such requirement, are questionable). It is recommended that information on assets and liabilities make part of additional disclosures as encouraged by part II of cash-basis IPSAS standards.

At the time being, accounting and financial reporting in the Republic of Serbia is cash basis. Cash basis accounting has been traditionally recognized for its emphasis on compliance with the annual budget law. On the other hand, the cash basis of accounting does not provide accurate and complete information on the Government's assets, liabilities and net worth, which is of utmost information for strategic management of public resources.

Several measures have been introduced to complement the accounting data with non-cash information⁸. These can be considered as useful, albeit only transitional, arrangements to supply the information gap.

Critical consideration in contemplating any accounting reforms is that “accounting serves rather than leads budget system reforms” budget system model should determine the Government’s accounting needs. Implications of transition to a different base of accounting are far-reaching.

Firstly, such a transition will inevitably introduce greater complexity into the accounting process. It will require sustained political commitment over the medium-term horizon and substantive amendments to the existing legislation. Implementation will require considerable financial and human resources. Ultimately, the transition may affect how fiscal policy will be formulated in the future. Not opting for the transition will have practical implications on information used for improved resource allocation, strengthened accountability, and enhanced transparency on total resource costs of government activities.

Any changes to the basis for accounting in the Republic of Serbia should be preceded by further analytical work to evaluate the options, risks and costs involved and the expected benefits. Reforms in this area should be incremental and accordingly scheduled over a medium/long-term to provide adequate time for the preparation of detailed implementation plans, the development of accounting policies, and implementation and testing of new systems. A wide range of transitional paths between the cash and accrual bases are possible.

The Republic of Serbia has not yet benefited from an internationally-recognized program for training and certification as some of the neighboring countries did. This would be a desirable step in the direction of sustainable capacity building.

Even without full-fledged changes to the basis for accounting, recent introduction of program budgeting will require development of adequate information systems for monitoring, management and reporting on performance. Whether performance information is to be used for budgetary decision making or promoting public accountability, it should be available in a consistent format over time and take into account the needs of different reporting purposes and audiences – executive, legislative, and the public at large. If the performance information is to be used for budgetary decision making (i.e. performance and activities linked with funding allocation), performance information systems will need to be more strongly tied with the accounting system. It would be worthwhile to consider including performance information in budget documentation to allow for monitoring, reporting and possible corrective action.

It is vital that the Government reporting systems allow for monitoring and adjusting of spending policies and programs. Critical issues remain those of coverage and use of data. Apparent gaps in budget transparency and comprehensiveness mandate further efforts on improving the fiscal reporting framework in order to better align it with the recommended international practices⁹. Mid-year budget execution in report, in particular, should be strengthened with the disclosure of a review of the economic assumptions underlying the budget and the impact of decisions or circumstances that may have a material impact on the budget.

⁸ E.g. commitments that had been made, commitments coming due and the amount of outstanding obligations still to be met in cash.

⁹ See for example, OECD Best Practices for Budget Transparency. Available at: <http://www.oecd.org/gov/budgeting/best-practices-budget-transparency.htm>

While the Ministry of Finance has started publishing reports on arrears collected in RINO system, these are subject to limitations. Financial reporting by Public Enterprises (PEs) is a well-established practice in the Republic of Serbia, based on forms prescribed by the Serbian Business Registers Agency (SBRA). In addition to the annual financial statements required by the SBRA, PEs are required to submit annual financial plans as well as quarterly financial statements to both their oversight ministries and to a competent unit in the Ministry of Finance. Responsibility for PE oversight was reassigned to the Ministry of Economy in April 2014, along with the staff of the Ministry of Finance's Department. However, given the fiscal risks inherent in Serbia's PEs, the Ministry of Finance has established a PE analytical unit of its own in the Budget Department according to Rulebook on Internal Organization and Systematization of Job Positions in the Ministry of Finance from August 2015 (the Unit comprises of 3 systemized posts).

The current reporting forms for PEs contain sufficient data for the financial monitoring needs of the Ministry of Finance. This financial information is used to establish a number of key financial management indicators which shall be published in an annual report on PEs.

Controlling arrears has been a challenge for successive administrations in the Republic of Serbia. The persistence of arrears, point to a lack of budget credibility, weak expenditure controls, and the complexities of the Government sector in Serbia. Arrears have undermined the delivery of services, particularly the health services, as well as the viability of public enterprises. The authorities recognize the problem and the impact arrears can have and have tried to tackle it in various ways. The Law on Deadlines for Monetary Obligations Payments in Commercial Transactions was adopted in 2013. This law sets a maximum delay of 45 days for any public sector entity to settle a payment to a private creditor, after which interest can be charged. Given the coverage of the FMIS which is limited to central government, the Treasury Administration established a separate reporting system (known as RINO) to track whether public sector entities are settling their payments to the private sector in accordance with the law, to avoid incurring significant late payment interest charges.

There are presently two main sources of arrears data — the RINO system, which is maintained by the Treasury Administration and a quarterly report prepared by the Department for Macroeconomic and Fiscal Analysis and Projections. These two sources have different coverage, with different timeframes, and target different audiences.

The implementation of effective commitment control remains a challenge in the Republic of Serbia, despite all the advice that has been provided in this area.

Finally, The Law on Deadlines for Monetary Obligations Payments in Commercial Transactions in August 2015 is extended to cover public to public commercial transactions as stipulated by Law.

The 2013 final accounts as prepared by the Government of Serbia provide cash basis information supplemented by selected accrual accounting information. There are a number of major deviations from the accrual accounting International Public Sector Accounting Standards (IPSAS). Current policies in the Republic of Serbia related to its balance sheet, can be characterized as an accounting regime in between cash accounting and accrual accounting.

By following a hybrid basis of accounting (neither cash nor accrual), there is an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses.

The Government plans to introduce system and process improvements to provide the FMIS generated payables reports.

Recognizing accounts payable in accordance with IPSAS standards requires applying the “delivery principle” recognition.

The Government should systematically compile information on financial assets and liabilities, and provide clearer guidance on valuation of assets, particularly for receivables. The Government needs to recognize a provision if debt guaranteed by the Government is in default and the government’s guarantee will be invoked.

The final accounts currently cover only the DBBs of the State Budget and exclude some IBBs and the Social Funds. The coverage of the final accounts should be extended to include all indirect budget beneficiaries, the social funds and the health institutions in the consolidation on a line-by-line basis.

The disclosure of information about the general government sector in financial statements will also form a useful link between the IPSAS financial statements and the European System of National and Regional Accounts (ESA) financial information.

The authorities are actively pursuing transparency of public finances and are therefore, in favor of adopting the accrual accounting IPSAS standards. This is an important step, in line with the recommendations by international institutions, including the IMF and the WB, to prepare financial statements in accordance with IPSAS standards.

The implementation of international standards will provide a more informed basis for fiscal policy and further improve transparency. In the Republic of Serbia’s current framework should be updated. When the current framework was introduced, international reporting standards, particularly for the public sector, were not advanced and statistical standards were based on cash accounting. Much progress has been made, with ESA 2010, Government Finance Statistics Manual (GFSM) 2014, and IPSAS, all being based on accrual accounting. Implementation of IPSAS standards in Serbia would lead to a number of improvements, including in the coverage of fiscal reports by including public enterprises, and the comprehensiveness of the balance sheet by recognizing nonfinancial assets. These improvements would put the Republic of Serbia at the forefront of public sector fiscal reporting practice in Europe.

A Government Sector Accounting Policy Council, which would bring together practitioners and experts to advise him on and propose accounting and reporting standards for general government in the Republic of Serbia, is in the process of being established. The membership of the Council should be carefully chosen for their professionalism and independence. It should consist of representatives from the accountancy profession in the public sector, academia and government bodies, both from central government and local self-governments, and may include other experts in government financial management and auditing. In particular a representative of the State Audit Institution of the Republic of Serbia is highly recommended and should act as an observer on the Council.

As one of the preparatory tasks, the Government of the Republic of Serbia is carrying out a gap analysis between the government’s current accounting practices and standards, as embodied in its financial statements and IPSAS accrual basis standards.

Going forward, the Government of the Republic of Serbia will establish a realistic roadmap towards full accrual accounting in the government sector indicating critical milestones and a clear timeframe. The IPSAS standards implementation will be complex and exposes the Government to significant implementation risks. The delivery of this roadmap will require proven project planning and implementation methodologies.

Along with IPSAS implementation plans, the Government of Serbia is monitoring activities related to preparation of "European Public Sector Accounting Standards" (EPSAS). Having in mind that, according to public consultation related to suitability of IPSAS for EU Member States, IPSAS in general represent suitable reference framework for development of EPSAS the Government of the Republic of Serbia expects no substantial difficulties in transferring to future EU standards.

There is a need to improve the skill levels of many accountants in the Government who may have been trained in national accounting standards in school. This limited knowledge of IPSAS standards in Serbia may hamper full compliance with the standards. Additional training efforts and capacity building in the area of public sector accounting is more than called for. A shortage of skilled technical personnel may otherwise impose a constraint on the improvement the Government accounting in the Republic of Serbia and entities under its control.

The gradual and systematic transition to accrual accounting based on IPSAS will be performed through sequential preparation of accounting policies according to IPSAS standards, which will be basis for preparation IPSAS compliant financial statements. It is planned that preparation of accounting policies will occur in 5 waves, enabling enough time for gradual adoption through the training of accountants. The Government's 2020 financial statements will be the first ones to fully comply with accrual IPSAS.

The Government of the Republic of Serbia plans to extend the coverage of the FMIS system, including the IBBs, and include them in the accounting and reporting framework as they are brought into the system. It also plans to develop and fund a roll out plan to ensure that IBBs have sufficient ICT hardware, training and oversight arrangements to ensure that they are able to meet the PFM requirements and enter full information into the system.

The modernization and institutional strengthening of the Treasury Administration is a high priority as it is crucial for the implementation of this pillar.

4.5.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 16	TO IMPROVE THE COVERAGE AND QUALITY OF BUDGET EXECUTION REPORTING	
RESULT	ACTIVITY	TIMEFRAME
16.1 The coverage and quality of budget execution and fiscal reports improved	Extend the coverage of the FMIS system on a step-by-step basis to IBBs, including them in the accounting and reporting framework as they are brought into the system.	1 st quarter 2018
	Develop and fund a treasury developed roll out plan to ensure that IBBs have sufficient Information and Communications Technology (ICT) hardware, training and oversight arrangements to operate in the FMIS.	1 st quarter 2018
	Analyze and align in-year reporting requirements and practice with best practices for budget transparency.	4 th quarter 2017
	Review and modify the reporting details used for in-year and year-end budget execution reports (including reporting on program budget execution when applicable).	4 th quarter 2017
16.2. Financial monitoring and reporting of public enterprises improved	Prepare and publish a consolidated report on Public Enterprises	1 st quarter 2017
	Gradual systematic extension of financial monitoring and reporting of Public Enterprises to the maximum	4 th quarter 2018

	possible extent	
16.3 Monitoring and reporting on arrears improved	Issue a circular reminding all budget users of their responsibility to record contracts as they are signed on the RINO and FMIS systems.	2 nd quarter 2016
	Review and strengthen the penalty arrangements for failure to implement prescribed financial controls.	4 th quarter 2016
	Extend the RINO system to include public-to-public transactions, and harmonize the coverage and definitions	1 st quarter 2016

MEASURE 17	MOVING GRADUALLY AND SYSTEMATICALLY TOWARDS ACCRUAL BASIS ACCOUNTING	
RESULT	ACTIVITY	TIMEFRAME
17.1 Completeness and coverage of accounting information improved through the implementation of Accrual Accounting based on IPSAS standards	Establish a government sector accounting standard setting council.	2 nd quarter 2016
	Develop a gap analysis between current accounting practices and accrual IPSAS.	2 nd quarter 2016
	Preparing a realistic road map towards full accrual accounting in the government sector	2 nd quarter 2016
	Revise regulatory framework for compliance with accrual accounting standards throughout government.	4 th quarter 2020
	Prepare accounting policies in compliance with IPSAS	2 nd quarter 2019
	Prepare financial reports in compliance with IPSAS	4 th quarter 2020
	Improvement of accounting solution in FMIS and other IT systems to support accrual accounting	1 st quarter 2017
	Provide capacity building for accounting staff for the transition to Accrual Accounting	4 th quarter 2020

4.6 EXTERNAL SCRUTINY OF PUBLIC FINANCES

4.6.1 MAIN DEVELOPMENTS AND STATE OF PLAY

The State Audit Institution (SAI) was included into the Constitution of the Republic of Serbia in November 2006. Legal framework of the SAI is regulated by the Law on the State Audit Institution, adopted in November 2005. In 2015 the SAI commenced with the development of the new Strategic plan for the period 2016-2020¹⁰. In addition to that the National Anti-corruption Strategy and the Public Procurement Development Strategy of the Republic of Serbia for the period 2014-2018, are important for SAI.

The SAI is recognized by the Budget System Law (Article 79) in terms that final accounts should contain external audit report. Legislative framework for SAI is further defined by *UN General Assembly Resolution A/66/209 on SAI independence* "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions", the ISSAI 1 - *Lima Declaration* on Guidelines on Audit Precepts, ISSAI 10 - *Mexico Declaration* on SAI Independence. Translations of the ISSAIs 1, 10 and 30 (*The Code of Ethics for SAIs*) are carried out and adopted by the SAI and published in the Official Gazette of the Republic of Serbia.

¹⁰ After adoption of the Strategic Plan (expected until the end of 2015), SAI will, if needed, update indicators.

At present, the SAI does not possess the appropriate business premises for conducting their regular operations to the fullest extent and the existing ones are scattered at different locations throughout Belgrade. Currently, the SAI has total of 250 employees (compared to systematized 431), whereby 211 (compared to systematized 366) are employees working in audit activities. The SAI Sector for Audit Methodology and Quality Control has only recently been staffed, therefore quality control and quality assurance are in the phase of development. The audit manuals, adopted by the SAI in 2015, are based on the latest ISSAI Framework and contain separate chapters on quality control.

Significantly higher resources in the SAI and extensive technical support provided by the European Commission have helped increase the audit coverage and provided closer alignment with the International Standards of Supreme Audit Institutions (ISSAIs). External audit has made the most progress since the 2010 PEFA Assessment.

With approximately 11,000 public entities that are subject to external audit, filling of the vacancies in the SAI, use of Computer Assisted Audit Tools (CAATs) to improve efficiency and appropriate staff training remains a priority.

The SAI is developing the capacities for performance audit, but at this time those resources are inadequate for extensive evaluation of program performance and need to be strengthened. In the medium-term, performance audit will gain in relevance for assessment whether the proclaimed goals and improvements in performance delivery have been achieved, together with appropriate accountability.

A portion of the audit resources is also used for filing of misdemeanor and criminal offence charges. Performing this additional duty potentially takes away resources from the audit work, however in the situation where institutions and systems in relevant areas for addressing corruption are also still in the process of developing, the SAI's support to this agenda appears beneficial at the current state of affairs. It does not diminish audit capacities of the Institution, because, as of 2011 for the purposes of effective performance of activities from our competences, we hired lawyers in the audit sectors competent for preparation of the charges and representation of the Institution in front of the competent courts.

The environment in which the SAI conducts its work may profoundly change from any change to the basis for accounting. The implications range from how the financial statements are audited, appropriate skills set and additional training of external auditors and new requirements for quality control of the audit work carried out.

To enable data comparison and analysis of the impact made by external audit work, it would be worthwhile to consider a public registry of audit recommendations. In addition to capturing and demonstrating the contribution made by the external auditors, such a registry would substantially facilitate the identification of systemic issues and strengthen the information basis for parliamentary oversight over the executive, which should provide critical democratic check on public spending and the execution of public tasks.

Effectiveness of the SAI work is undermined by the absence of specific procedures and deadlines for scrutiny of the audit reports by the Committee for Finance, Budget and Control over Use of Public Resources of the National Assembly.

To date, no hearings on the findings documented in the SAI reports to hold the representatives of the executive to account have been held. Changes announced by the Committee Secretariat

representatives, including the creation of a specialized audit sub-committee for ex-post examination of the audit reports constitute a move in the right direction¹¹.

The current practice in the submission of the audited final accounts in practice (December) limits the usefulness of information from the audit report in deliberation of the budget proposal by the National Assembly.

It is necessary to enforce the constitutional and statutory obligation on the part of the National Assembly with regards to review and adoption of the final accounts of the Budget of the Republic of Serbia as a critical link in the accountability chain. Without ex-post control of the budget, the National Assembly cannot hold the executive accountable for the use of assigned resources and promote improvements in terms of how they are managed.

Current practice limits the ability of the National Assembly to examine the final accounts for reliability, accuracy, completeness and compliance with rules. It also prevents a meaningful debate on the extent to which the budget was used for the purposes stated in the approved budget.

In order to ensure effective external scrutiny over public finances, the following set of measures has been defined as to ensure effective external audit and appropriate Parliamentary oversight over public finances in line with the SIGMA Public Financial Management Principles 15 and 16 and Chapter 32 – Financial Control.

4.6.2 MEASURES, RESULTS AND ACTIVITIES

MEASURE 18	TO STRENGTHEN THE COVERAGE AND QUALITY OF EXTERNAL AUDITS	
RESULT	ACTIVITY	TIMEFRAME
18.1 The State Audit Institution (SAI) carries out financial, compliance and performance audits as mandated by the Law and in line with the ISSAIs standards	Strengthening the external audit function in terms of reviewing and implementing the right mix of number of staff, their professional training and adopted methodology, applying the computer assisted audit tools (CAATs), in order to increase audit productivity and coverage.	4 th quarter 2020
18.2 Links between the budget process and final accounts audits improved	Analyze moving the deadline for submission of the draft Law on Final Account of the Budget of Republic of Serbia forward in the year to provide audit input earlier in the budget process in order to increase the time available for the SAI to audit the draft Law on Final Account of the Budget of Republic of Serbia.	4 th quarter 2017
18.3 Internal quality control and quality assurance function within the SAI fully developed and operational	Sector for Audit Methodology and Quality Control should be appropriately staffed and operational.	4 th quarter 2017
18.4 Systemic follow-up of implementation of audit recommendations improved	Establishing a database of audit recommendations, facilitating the identification of systemic issues and enhancing the information basis for parliamentary oversight over the executive.	3 rd quarter 2018

¹¹ Subcommittee for the Consideration of Reports on Audits Conducted by the State Audit Institution was established in February 2015.

MEASURE 19	TO STRENGTHEN PARLAIMENTARY SUPERVISON OVER PUBLIC FINANCES	
RESULT	ACTIVITY	TIMEFRAME
19.1 Proper parliamentary oversight function ensured	Making the necessary organizational arrangements to deliberate external audit work and establishing clear written procedures for deliberation of audit reports with deadlines for deliberation and taking action for Committee for Finance, Budget and Control Over Use of Public Resources of the National Assembly	3 rd quarter 2016
	Organize meetings of the Committee for Finance, State Budget and Control of Public Spending in the form of hearing for discussion of audit reports	3 rd quarter 2017

5 SUMMARY OVERVIEW OF THE PREPARATION AND CONSULTATION PROCESS

The Working Group for the Preparation and Monitoring of the Implementation of the Public Financial Management Reform Program was formally established by the Minister of Finance in February 2015 (“The Working Group”).

The Working Group was summoned on numerous occasions during 2015 and actively engaged in both the diagnostic phase, serving as a medium for cooperation with the WB PEFA Expert Team and the expert teams of the IMF Fiscal Affairs Department during their spring and autumn missions.

Initial meetings were held in March 2015 to discuss recommendations of the IMF FAD after their mission in Serbia with special emphasis focused on the methodology for preparation of the PFM Reform Program. Numerous consultations were subsequently held with the WB experts on the PEFA assessment.

The Working Group convened in May 2015 to discuss the preliminary PEFA inputs after they had been received, which was followed by several written exchanges between the members and the PFM Technical Secretariat in order to improve content of the draft PFM Reform Program before its submission to the EC in July.

A preliminary draft of the PFM RP was produced by the Working Group and submitted to the European Commission on July 9th, 2015 and forwarded for opinions and comments to the IMF and other relevant external stakeholders. Its submission was acknowledged as a major step forward the Government’s reform agenda and that it marked immense progress in comparison with the previous years, as stated by several bilateral donors, as it presented an overall reform framework which has been anticipated since 2010.

The first public presentation of the PFM Reform Agenda and the preliminary draft of the PFM Reform Program took place on July 10th 2015 at the “ Public Administration Reform - Partner Meeting”, which was chaired by the Deputy Prime Minister and Minister for Public Administration and Local Self Government. The initial response of the public was very positive as the State Secretary at the Ministry of Finance in charge of the coordination of the PFM reform Agenda explained how this agenda as well as its PIFC component fits into the overall Public Administration Reform and compliments its effort.

The Working Group reconvened again in September 2015 to work in the preparation of the full draft of PFM Reform Program, which was followed by additional exchanges between the members of the WG before completion of full draft. Additionally, meetings of the Working Group were organized with the FAD IMF mission, which were crucial for the further improvement of the PFM Reform Program.

The comments received from the EC services, SIGMA and the IMF were largely incorporated in the full draft version of the document which was submitted to the EC on October 5th, 2015. Additional comments were provided by the EC services at the consultation meeting held in Belgrade on October 13th, 2015, which were reconfirmed in the official correspondence received from the EC on October 20th, 2015.

The Working Group intensified its work towards the finalization of the PFM Reform Program with SIGMA in late October 2015, in line with the comments provided and finalized key indicators for monitoring progress in the implementation of the Program as well as accurate cost estimates for the reform activities.

Three meetings of the Working group were organized with SIGMA experts in this time frame. The final draft was officially transmitted to the EC services on November 2nd, 2015, in line with the timeframes stipulated by the EC.

In the meantime, the full draft of the PFM Reform Program was presented to the donor community in Serbia by the Chair of the Working Group and the PFM Reform Steering Committee, the Minister of Finance, on October 21st, 2015, at the first Donor Coordination meeting on the PFM Reform Agenda. The meeting was attended by high level representatives from the Delegation of the European Union to Serbia, relevant international financial institutions, the Embassies of partner countries who have supported PFM reforms over the last decade and international development agencies.

The PFM Reform Program, and the Ministry of Finance as the leading institution in the Republic of Serbia for implementing PFM reforms were commended and received very positive feedback and acclaim for the efforts invested in coordinating the preparation of the Program as well as the quality and relevance of the Program.

The Minister of Finance informed all the external stakeholders present at the meeting that going forward, the Steering Committee for the PFM Reform Program will organize regular coordination meetings with the donor community. The purpose of the regular coordination meetings will be to: inform the donor community of the progress in the implementation of the PFM Reform measures, gather input from the donors with the purpose of revising, updating and improving the PFM Reform Program and to coordinate the efforts and support provided by the donor community in implementing the reform measures as to ensure complementarity of efforts and to avoid any overlapping thus ensuring maximum effectiveness and efficiency in the mobilization and utilization of resources for the overall implementation of the reform agenda. Additionally, the Minister of Finance invited the donor community to take an active role in the implementation of selected measures and results, in close coordination with the relevant national authorities, as the successful implementation of selected measures depends on the active cooperation and involvement of the donor community. Comments of the donor community both discussed during the meeting and received by e-mail were largely incorporated in the Program.

The full draft of the PFM Reform Program was also presented and discussed with representatives of the non-governmental sector, specifically, civil society organizations (CSOs) on October 28th, 2015 in the framework of the National Convent on the European Union. The Working Group of the National Convent for negotiation chapters 5 – Public Procurement and 32 – Financial Control appraised the Program as good, and were particularly interested in the PIFC issues, monitoring of implementation of the Program and possibilities of capacity building at the local level for dealing with the PFM issues. The inclusion of the recommendations of the Convention’s Working Group for the Chapter 22 – Regional policy and coordination of the Structural instruments in the Program was also positively evaluated

The CSO’s are of the opinion that the PFM Reform Program represents a sound framework for implementing the PFM reforms and the Ministry of Finance was commended for its efforts in initiating the consultation process with the civil sector, which illustrates the recognition of the important role of civil society in the overall reform processes at the national level from the side of the Ministry of Finance.

The PFM Reform Program was initially planned to be presented to the National Parliamentary Committee for Finance, State Budget and Control of Public Spending in mid-November 2015. Following consultations with the Committee, whose representatives are members of the Working Group and one of the major stakeholders in the preparation and implementation of the PFM Reform Program, it was decided to defer the presentation to a later stage after the adoption of the Program by the Government and to present it to the selected representatives of all the Parliamentary Political Party Groups, as the PFM Reform Program has already been endorsed by the Committee itself, through its active participation throughout the course of its preparation.

The updated final version of the PFM Reform Program was resubmitted to the EC on November 16th, 2015 following the receipt of additional comments and suggestions received on November 11th and 12th 2015.

6 ROLES AND RESPONSIBILITIES FOR THE PREPARATION, MONITORING AND REPORTING ON THE IMPLEMENTATION OF THE PFM REFORM PROGRAM

6.1 THE WORKING GROUP FOR THE PREPARATION AND MONITORING OF THE IMPLEMENTATION OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM

The Working Group, formally established in February 2015 and chaired by the Minister of Finance is comprised of the representatives of the following stakeholder institutions:

1. The Ministry of Finance (*including, the Department for Macroeconomic and Fiscal Analysis and Projections, the Budget Department, the Department for International Cooperation and European Integration, the Department for the Fiscal System, the Department for Customs Policy and the Customs System, the Department for Internal Control and Internal Audit, the Budget Inspection, the Section for combatting irregularities and fraud in dealing with EU funds, the Department for managing EU funds, Tax Administration, Treasury Administration, The Public Debt Administration and Customs Administration*)

2. The National Assembly - Committee for Finance, State Budget and Control of Public Spending

3. The State Audit Institution

4. The Ministry for Public Administration and Local Self Government

5. The Public Policy Secretariat of the Republic of Serbia

6. The Public Procurement Office

7. The Audit Authority Office of EU Funds

8. The European Integration Office of the Republic of Serbia.

As PFM is a specific horizontal and cross cutting field which has an impact on the overall management of public resources, with an extensive scope legally divided between the competencies of several institutions in the public sector, the Minister of Finance invited the heads of all the relevant institutions which have a role in any and all the PFM subsystems to appoint authorized representatives who would provide the required professional and technical input for drafting the PFM Reform Program and who would be the responsible persons for coordinating the implementation and monitoring the progress towards the achievement of the endorsed PFM reform objectives, measures and activities within the scope of competency of the their institutions.

The Working Group was established as a key technical body whose role is to define the scope and articulate the specific reform measures and activities and to subsequently coordinate their implementation within the line institutions involved in the implementation, monitor the progress towards achieving the Program objectives and report to the PFM Reform Program Steering Committee. In next fase of the process, the General Secretariat of the Government will be included in the monitoring the PFM Reforme Program.

The PFM Reform Program Technical Secretariat was also established by means of the same Decision of the Minister of Finance on establishing the Working Group which would provide the technical and administrative support for the activities of the Working Group as well as the PFM Reform Program Steering Committee.

6.2 PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM TECHNICAL SECRETARIAT

The Department for International Cooperation and European Integration at the Ministry of Finance was attributed the role of providing administrative, technical and logistical support to the Working Group and the Steering Committee throughout the course of the preparation, implementation, monitoring, updating and reporting on the implementation of the PFM Program, as mandated in the Rulebook on the Internal Organization and Systematization of Job Positions at the Ministry of Finance.

The responsibilities associated with the functions of the Technical Secretariat are undertaken by the Section within the Department which deals with the planning, programming and monitoring of IPA funds and international donor assistance in the field of PFM. The Section currently employs three out of five job positions and has direct communication with the two other internal organizational units within the Department which are mandated with the responsibility for coordinating the implementation of EU Pre-Accession and other bilateral donor assistance and the coordination of the preparation of the national ERP, as well as the responsibility for the coordination of EU accession negotiations in the relevant fields.

Such a positioning of the Technical Secretariat enables the appropriate interface with the units dealing with activities and information that has a direct impact on the PFM Reform Program and will facilitate an active and timely response with regards to proposing modifications and making adjustments to the Program in line with EU accession requirements, whilst ensuring the complementarity of the two strategic documents which are coordinated by the Ministry of Finance.

6.3 PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM STEERING COMMITTEE

The Public Financial Management Reform Steering Committee is tasked with the responsibility of high level, political coordination under the direct responsibility of Minister of Finance, who chairs the meetings of the Steering Committee.

In order to ensure sound and effective management of the implementation of the PFM RP, Pillar Coordinators will be assigned to closely monitor the implementation of specific measures within the PFM pillars and to coordinate horizontal issues and links between the pillars, which have a direct impact on the effectiveness and sustainability of actions.

The Steering Committee will comprise of the following members:

1. The Minister of Finance as the Chairman of the Steering Committee, and the Minister who is accountable to the Government of the Republic of Serbia for the overall Public Financial Management Reform Agenda.

2. The PFM Pillar coordinators.

At present, the two State Secretaries at the Ministry of Finance have been assigned the tasks of Pillar coordinators in line with the responsibilities assigned and conferred to them by the Decision of the Minister of Finance, for coordinating the work of the internal organizational units and administrations within the Ministry of Finance.

Additionally, due to segregation of authority and the functional independence of independent state authorities which are equal stakeholders in the implementation of PFM reform activities, whilst outside of the executive branch, the President of the State Audit Institution and the President of the Committee for Finance, State Budget and Control of Public Spending of the National Assembly have been assigned the role sub-pillar coordinators for the External scrutiny of public finances pillar, with equal rights and responsibilities within the Steering Committee.

Table 1: The pillar coordinators

PILLARS	STAKEHOLDERS INSTITUTIONS/UNITS	PILLAR COORDINATOR
I. Sustainable medium term macro-fiscal and budgetary framework	Macro-Fiscal Analysis Department	State secretary responsible for the relevant area
II. Planning and budgeting of public expenditure	Budget Department	State secretary responsible for the relevant area
III. Effective and efficient budget execution	Tax Administration Treasury Administration Public Debt Administration Public Procurement Office	State secretary responsible for the relevant area
IV. Effective financial control	Department for Internal Control & Internal Audit Budget Inspection AFCOS Audit Authority of EU funds	State secretary responsible for the relevant area
V. Accounting, monitoring and financial reporting	Treasury Administration Budget Department	State secretary responsible for the relevant area
VI. External scrutiny of public finances	State Audit Institution National Assembly – Committee on Finance, State Budget and Control of Public Spending	President, State Audit Institution/ President of the Committee on Finance, State Budget and Control of Public Spending, National Assembly (*except for the result 18.2)

The Steering Committee shall convene on a quarterly basis to:

- Monitor the implementation of the action plan against targets and outcome indicators
- Review monitoring reports prepared by the Working Group
- Resolve any coordination issues or difficulties arising in the implementation of the Program in the reporting period
- Endorse and submit bi-annual reports on the implementation of the PFM RP to the Government as well as modifications to the PFM RP
- Decide on resource allocation and reallocation for the implementation of the PFM RP
- Identify, discuss and assess the risks associated with the implementation
- Facilitate the coordination with other government reform programs
- Serve as the medium for external cooperation and donor coordination.

The Steering Committee will be supported by the Technical Secretariat, as described in the previous section, which will be responsible for coordinating the timely receipt of required information from the Working Group, compiling the bi-annual monitoring reports and ensuring that all changes and updates made to the Program are coordinated with the regular updates which will be made to the Public Administration Reform Strategy and Action Plan, the Strategy for the Development of Public Internal Financial Control, and other relevant documents.

7 RISK MANAGEMENT

Risk Management is of crucial importance for the successful implementation of the PFM Reform Program. Careful and comprehensive Risk Assessment and planning of adequate mitigation measures will assure an acceptable and manageable risk level in this respect.

This section of the document aims to identify the key risks to the implementation of the Program and associated mitigation measures which will be taken in order to reduce risks.

As previously mentioned, the Steering Committee will be in charge of monitoring risks and assuring that mitigation measures are undertaken.

Key risks can be identified as political, administrative, institutional and financial.

The lack of political commitment to implementation of the PFM Reform Program is low, having in mind that the preparation and implementation of the PFM RP has been declared as a high priority by the Minister of Finance and that the Program will be adopted by the Government.

Additionally, the preparation of the Program was very transparent and all relevant stakeholders, including the Parliament and representatives of the civil society, were consulted.

This commitment, both from the Government and all the relevant institutions included in the process, guarantees that the implementation of the Program will remain a key priority.

At administrative and institutional level, there are some significant obstacles that need to be taken into account in order to secure implementation of the PFM Reform Program.

Coordination mechanisms need to be fully operational and all relevant institutions need to have strong institutional capacities in order to be able to implement all the activities and achieve the projected results. This aspect becomes even more important considering that the majority of the results from the PFM Reform Program need to be achieved within the first two years of program implementation. For this reason, and irrespective of the Government restrictions on new employment, most units relevant for the implementation of the PFM Reform Program have been further strengthened in the latest systematization acts. Adequate human capacity is critical for successful implementation of all segments of the PFM Reform Program.

In addition to that, the costing and necessary financial resources for the implementation of the PFM RP need to be clearly identified and secured. Having in mind that the costing will significantly exceed the national financial resources available, the substantial part of the PFM Reform Program relies on external (donor) assistance. In this regard, prior to the finalization of the PFM Reform Program, the Minister of Finance presented the PFM Reform Program to the donor community and invited them to support the process of implementation.

Meetings with the donor community will be held regularly and the timely implementation of the Program will, to some extent, depend on their support. Significant support is expected to be provided by the European Union through the Sector Budget Support for Public Administration Reform Sector, both in terms of funding core activities/procurement and providing technical assistance in the process of Program implementation. The German Agency for International Cooperation (GIZ) has been providing continues and significant support in various fields of PFM Reform Program, and the main areas of support for the upcoming period are related to Tax Administration, the Budget Inspection, the Budget Department, as well as capacity building support

to the Fiscal Department and the Department for Macroeconomic and Fiscal Analysis and Projections. In addition to that, so far SIGMA and TAIEX support will be available, as well as UNDP and IPA. The on-going projects directly related to the PFM Reform Program are listed in the Annex 1: Public Financial Management Reform Action Plan, under the column external additional costs in the table.

Table 2: Risk Assessment and mitigation measures

KEY RISKS	RISK RATING	PROBABILITY RATING	RISK MITIGATION MEASURE	RISK OWNER
1. Political commitment to the implementation of the PFM Reform Program	high	low	The PFM RP adopted by the Government; Link between the implementation of the PFM Reform Program and the Sector budget support.	Ministry of Finance
2. Commitment of all relevant institutions to the implementation of the PFM Reform Program and lack of coordination	medium	low	Regular meetings of the Steering Committee and the Working Group	All relevant stakeholders
3. Inadequate human capacity (number of employees and level of knowledge and expertise)	high	medium	Filling systematized job positions and continues training for employees; Technical Assistance from donors for specific areas of the Reform Program.	All relevant stakeholders
4. Insufficient funds for financing of the PFM Reform Program	high	medium	Planning the necessary appropriations in the national budget, in accordance with the fiscal consolidation measures; Activities of the PFM Reform Program represent a high priority for financing from IPA and bilateral donor assistance; Significant amount of Sector Budget Support for PAR Sector from IPA2015 will be used for implementation of the PFM Reform Program.	All relevant stakeholders
5. Delays in public procurement procedures	medium	medium	Timely prepared technical and tender documentation of good quality; Efficient resolution of appeals in the procurement process.	All relevant stakeholders / Republic Commission for protection of Rights in Public Procurement Procedures.
6. Inadequate, mutually incompatible and unconnected IT systems related to the PFM	medium	medium	Continues investment in IT infrastructure and improved coordination system among institutions	All relevant stakeholders

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ANNEX 1: PUBLIC FINANCIAL MANAGEMENT REFORM ACTION PLAN

I. SUSTAINABLE MEDIUM TERM MACRO-FISCAL AND BUDGETARY FRAMEWORK

MEASURE 1		TO IMPROVE THE CREDIBILITY OF MACROECONOMIC FORECASTING					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
1.1. Strengthened capacities of the Ministry of Finance for improved macroeconomic forecasting and improved methodological approach	Procurement, customization and implementation of the Bridge Model to improve GDP forecasting	1 st quarter of 2017					
	Strengthened the capacity for carrying out long term fiscal sustainability analyses	4 th quarter of 2017					
1.2 Ensured administrative and technical capacities of managing the EU own resources	Strengthen the capacity of the coordinating body and all other institutions involved in revenue collection for correct calculation, accounting, forecasting, collection, payment and control of own resources	2 nd quarter of 2017	Dedicated staff in the partner institutions appointed. Methodology for calculation, accounting, forecasting, collection, payment and control of own resources adopted (2017)			Ministry of Finance	Tax Administration Customs Administration Treasury Administration

II. PLANNING AND BUDGETING OF PUBLIC EXPENDITURE

MEASURE 2	TO IMPROVE THE COVERAGE OF THE NATIONAL BUDGET						
RESULT	ACTIVITY	TIMEFRAM E	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
2.1 Institutional coverage of the national budget expanded	Gradual and systematic inclusion of own sources and budget beneficiaries into the national budget	4 th quarter 2020	<p>Reliable financial plans of Indirect Budget Beneficiaries included in the national budget (2018)</p> <p>IV: Courts, public prosecutors and judiciary institutions included (beg.2016)</p> <p>TV: Prisons, cultural institutions included (2017)</p> <p>TV: Social protection institutions included (2018)</p>		50.000 EUR	Ministry of Finance	Indirect Budget Beneficiaries

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
2.2 Expanded coverage of external sources of funding in the national budget	Gradual and systematic inclusion of donor assistance in the national budget and budget execution documentation	4 th quarter 2020	Percentage of external funds included in the national budget and budget execution documentation 2018 compared to the baseline value in 2016			Ministry of Finance	European Commission Bilateral Donors European Integration Office

MEASURE 3 TO FURTHER IMPLEMENT MULTI-ANNUAL PROGRAM BUDGETING ACROSS ALL LEVELS OF GOVERNMENT							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
3.1 Improved process of program budgeting	Procurement and customization of software for the management of public finances, which connects the planning, execution and control	4 th quarter 2016	Percentage of compliance of program structures of budget users with Guidelines for the preparation of the Program Budget <i>BV: % to be determined after adoption of Guidelines</i> <i>TV: To be determined</i>	30.000 EUR	USAID Project for better operational conditions in 2015 0,5 million EUR EU IPA 2014 - Exchange 5 for Activity 6	Ministry of Finance	General Secretariat of the Government Public Policy Secretariat of the Republic of Serbia Human Resource Service of the Government
	Customization of the software for the management of public finances in order to ensure the appropriate interface with the module for Public Policy Planning	2 nd quarter 2017					
	Process analysis, monitoring and control of program budgeting and identify recommendations for improvement	1 st quarter 2016					

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Improving the methodology of the program budget and preparation of the new guidelines in accordance with the recommendations	2 nd quarter 2016	(continued)	(continued)	(continued)	(continued)	(continued)
	Conducting training for civil servants to improve the program budget	2 nd quarter 2016					
	Implementation of the budget cycle for 2017 in line with the improved methodology	2 nd quarter 2016					

MEASURE 4 TO IMPROVE PUBLIC INVESTMENT PLANNING							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
4.1 A single platform for Capital Projects Planning and methodology for public investment analysis and planning established	Evaluation of proposed public investment projects by budget beneficiaries and drafting an implementation plan	4 th quarter 2016	Percentage of budget execution of capital projects approved according to the new methodology <i>BV: 0% (2016)</i> <i>TV: To be determined in 2017</i>		81. 626 EUR 80.000 EUR Expertize of the World Bank	Ministry of Finance	Budget users European Integration Office Public Policy Secretariat

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Monitoring the implementation of approved capital projects and proposing measures to improve the planning and implementation of public investment project	2 nd quarter 2017					
(continued)	Harmonization of procedures for planning, evaluation and selection of all capital projects regardless of the source of financing (national and local budgets, EU funds and other sources), and reporting	4 th quarter 2016					

MEASURE 5	TO IMPROVE BUDGET PLANNING						
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
5.1 Improved data on the fiscal impact of legislative initiatives	Develop methodologies for medium-term baseline estimates and costing of new policies, set up the legislative framework and provide training	4 th quarter 2018	<p>New methodology for baseline estimates and policy costing adopted <i>IV: 0 (2015)</i> <i>TV: 1 (2017)</i></p> <p>Percentage of estimates based on new methodology <i>IV:0% (2017)</i> <i>TV: TBD</i></p>		8.967 EUR	Ministry of Finance	Budget Beneficiaries

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
5.2 Improved planning of public funds through increased alignment with the Budget Calendar	Improved coordination and alignment of planning and programming of external assistance with the Budget Calendar	4th quarter 2020				Ministry of Finance	European Integration Office European Commission Bilateral donors
5.3 Improved Mid-Term Planning of the budget beneficiaries through increased alignment with the Methodology for Mid-Term Institutional Planning	Improved coordination and alignment of budget planning and execution of budget beneficiaries through compliance and alignment with the Methodology for Mid-Term Institutional Planning	4th quarter 2018	Methodology for Mid-Term Institutional Planning adopted (2016) Percentage of Mid-Term Plans of budget beneficiaries based on new methodology <i>IV: 0% (2016)</i> <i>TV: 100% (2018)</i>			Ministry of Finance Public Policy Secretariat	Budget Beneficiaries

MEASURE 6	TO IMPROVE THE OPERATIONAL CAPACITIES FOR PUBLIC INVESTMENT COORDINATION AND BUDGET PLANNING						
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
6.1 The operational capacity of the Budget Department improved	Implement an institutional strengthening process of the Budget Department, and increasing its staff to increase its operational capacity and performance on budget preparation and coordination, on monitoring budget execution and in compiling detailed budget execution reports	2nd quarter 2016	The Budget Department fully staffed <i>IV: 67% (2015)</i> <i>TV: 100% (2016)</i>	1.604 683 EUR		Ministry of Finance	

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
6.2. Analytical and Planning units in Public Administration Bodies introduced to support budget planning linked to policy planning	Implement an institutional strengthening process of public administration bodies (ministries and their departments/administrations /inspectors, special organizations and governmental services) for conducting necessary analysis, planning and budgeting by introduction of analytical and planning units	4 th quarter 2017	Analytical and Planning units introduced (2017) Percentage of public administration bodies that introduced analytical and planning units <i>IV:0% (2016)</i> <i>TV: to be determined</i>			Ministry of Finance	General Secretariat of the Government Public Policy Secretariat Budget Beneficiaries

III. EFFICIENT AND EFFECTIVE BUDGET EXECUTION

MEASURE 7		TO IMPROVE REVENUE COLLECTION					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
7.1 Tax Administration Transformation Strategy implemented	Strengthening strategic management and the basic Tax Administration functions, improving organizational structure and business processes, improving services to tax payers	4 th quarter 2020	Percentage of achieved activities of the Strategy <i>IV: 15% (2015)</i> <i>TV: 52% (2016)</i> <i>TV: 61 % (2017)</i> <i>TV: 63 % (2018)</i> <i>TV: 67% (2019)</i> <i>TV: 100% (2020)</i>	21.569 194 EUR	363.244 EUR	Tax Administration	Ministry of Finance
7.2 Voluntary compliance with tax legislation, guidelines, and procedures improved	Perform an analysis of (i) the legislation, including criminal legislation, guidelines, and administrative/operational procedures; (ii) information to assess tax liabilities; and (iii) impediments to contest administrative ruling on tax liability, which need to be clarified	4th quarter 2017	Percentage share of total regular (voluntary) tax collection against total tax revenues estimated in budget <i>IV 2014: 85%</i> <i>TV 2016: 86%</i> <i>TV 2017:87%</i>		37.500 EUR	Tax Administration	Ministry of Finance

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Review the Tax Auditors' workflow and standard operating procedures to verify if their functions and prerogatives are clear in order to minimize discretionary decisions.	1st quarter 2017				Tax Administration	Ministry of Finance
(continued)	Improve clarity and usefulness of tax liabilities information by establishing a dedicated taxpayer services Department/unit within the STA	4th quarter 2017				Tax Administration	Ministry of Finance
7.3 The Customs system improved and modernized	Implementation of ERIAN (Risk Management System), an expert system-module whose goal is an on-line evaluation of declarations processed by the declaration processing systems according to specifications of risk models (Risk profiles) created by risk analysts in ERIAN repository of risk profiles	4th quarter 2018	Percentage of discrepancy of actual collection against approved budget estimate <i>IV 2014: TBD</i> <i>TV 2017: TBD</i> <i>TV 2018: TBD</i> Increase of Tax collection as a % of GDP <i>BV 2014: TBD</i> <i>TV 2016: TBD</i> <i>TV 2017: TBD</i>		154.000 EUR	Customs Administration	Ministry of Finance

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continue)	Upgrading anti-corruption measures	4th quarter 2018				Customs Administration	Ministry of Finance
	Modernizing the Customs Laboratory	4th quarter 2018					
7.4 The appeals mechanisms are improved	Conducting a review of the independent appeals function. The main outcome of this activity should be: (i) establishing an M&E system for appeal cases and (ii) providing means for the dissemination of resolutions including the elapsed time, and the number and size of cases	4th quarter 2018	% of the adopted appeals in comparison with total number of appeals completed IV: 37,71% TV: 2015. - 36,2%; TV: 2016. - 35,5%; TV: 2017. - 34,8%; TV: 2018. - 34,1%.	573.638 EUR	3.000 EUR	Tax Administration	

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
7.5 The appropriate links between different databases within Tax Administration and between the Tax Registration System and other registration systems established	Processes mapping of the existing links among the Tax Administration and other registration systems and financial sector regulations, assessment of the ICT capabilities to interconnect different registries online; and preparation of a roadmap and timeline to address issues.	4 th quarter 2017	Number of interactive data bases in the Tax administration <i>IV: 2(2015)</i> <i>TV: 3(2017)</i>		100.236 EUR	Tax Administration	Ministry of Finance Customs Administration Tobacco Administration
	Assessment of internal procedures at Tax Administration to control and ensure that the Tax Registry is regularly updated						
	Establishment of IT facilities (ESI) in connection to the process of EU integration (requests of Chapter 17)	4 th quarter 2020		2.500 000 EUR (EIS)	22 500 EUR (EIS)		

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
7.6 More effective penalties system for non-compliant registration and declaration obligations developed	Revision and updating of the legislation, including Criminal legislation, regarding penalties for non-complaint registration and declaration obligations	4 th quarter 2018	increase in % of revenue collection <i>IV: (2015)</i> <i>TV: % (2018)</i>		25.000 EUR	Ministry of Finance Tax Administration	Ministry of justice
7.7 Improved risk management practices	Implementation of the annual control plan based on identified risks and streamlining of headquarters control over the control plan focusing on large taxpayers improving the "strike rate" reviewing the allocation of auditors in order to ensure an optimal distribution of skills and implement an M&E system to enable managers to monitor performance.	4 th quarter 2017	% of controls with irregularities <i>IV: 33,06%2014</i> <i>TV 33,5% 2015</i> <i>TV 35% 2016</i> <i>TV 36% 2017</i>		126.016 EUR	Tax Administration	Ministry of Finance

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Implementation of the annual audit plan based on the risk management criteria for the selection of cases for green, yellow, and red lanes, by improving risk profiling for authorized operators, implementing a quality control mechanism to ensure that the risk criteria have been properly applied at borders and an M&E system to enable managers to oversight performance.	4 th quarter 2017	(continued)	(continued)	(continued)	Tax Administration	Ministry of Finance
7.8 Improved tax arrears and control information systems and oversight	Improve the control mechanisms to get updated information about arrears. Implement more effective late payment penalties in order to encourage on time payments. Implement an ITC system to support the debt management function.	1 st quarter 2018	The percentage of arrears against assessed tax liabilities <i>IV: % (2014)</i> <i>TV: Decrease (to be determined) % of arrears against assessed tax liabilities (2018)</i>	1.310 917 EUR	50.000 EUR	Tax Administration	Ministry of Finance

MEASURE 8		TO IMPROVE COMMITMENT CONTROL AND CASH MANAGEMENT					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
8.1 Adequacy of approved budget quotas ensured and cash flow planning improved.	Instituting procedures which would enable Ministry of Finance to assess the reliability of reported cash needs by users of public funds with a view to ensuring adequacy of budget quotas and aggregate cash requirements and strengthening the daily, monthly and quarterly cash flow planning.	1st quarter 2018	Expenditures on multi-year projects to not exceed approved budgets <i>IV: Variance between expenditures on multiyear projects and approved budgets (2017)</i> <i>TV: (to be determined) % of reduction in variance between expenditures on multiyear projects and approved budgets (2018)</i>			Treasury Administration	Ministry of Finance

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
8.2 Enhanced control over multi-annual contractual commitments	Analyses and implementing a systematic approach to approve records and monitor multi-annual contractual commitments.	4 th quarter 2018	Commitments recorded in the Treasury System within (to be determined) days of contract signature <i>IV: Percentage of commitments recorded in due time(2016)</i> <i>BV: Recorded commitments increased (2017)</i>			Treasury Administration	Ministry of Finance

MEASURE 9		TO IMPROVE THE CAPACITIES FOR PUBLIC DEBT MANAGEMENT					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
9.1 Designed and implemented public debt management software	Procurement, design, customization and implementation of software for the public debt management including an appropriate model to improve public debt risk management, scenario analyses, stress tests and other relevant analyses	1 st quarter 2017	Operational Debt Management System software in place (2017) <i>IV: 0 TV: 1</i>	50.000 EUR	500.000 EUR	Public Debt Administration	Ministry of Finance
9.2 Established methodology for long term public debt sustainability analyses	Development and implementation of a methodology for carrying out long term public debt sustainability analyses	1 st quarter 2017	Developed Standardized methodology defined in the Internal Act of the PDA <i>IV: 0 (2015) TV: 1</i>		50.000 EUR	Public Debt Administration	Ministry of Finance
9.3 Primary dealers system introduced	Creating and implementing the new organization of Government securities primary market by introducing the primary dealers system	1 st quarter 2018	Primary dealers system introduced <i>IV: 0 TV: 1 (2018)</i>	100.000 EUR	100.000 EUR	Public Debt Administration	Ministry of Finance
9.4 By-law for financial derivatives transactions adopted	Preparation of documentation and implementation of legal framework for financial derivatives transactions	1 st quarter 2017	By-law for financial derivatives transactions adopted (2017) <i>BV: 0 TV: 1</i>		50.000 EUR	Public Debt Administration	Ministry of Finance

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
9.5 Asset under management procedures adopted	Strengthening capacity and preparation of legislation related to the asset under management	1 st quarter 2017	Asset under management procedures adopted <i>IV: 0</i> <i>TV: 1(2017)</i>	75.000 EUR		Public Debt Administration	Ministry of Finance
9.6 Adopted by-law for projects' loans monitoring	Monitoring of projects' loans – establishing of new system	1 st quarter 2017	Adopted by-law for projects' loans monitoring <i>IV: 0</i> <i>TV: 1(2017)</i>	75.000 EUR	50.000 EUR	Public Debt Administration	Ministry of Finance
9.7 More capable Public Debt Administration staff	Conducting training for civil servants to improve the human capacity of the Public Debt Administration	1 st quarter 2018	Increase in staff at the Public Debt Administration <i>IV: Number of filled job positions 31 (2016)</i> <i>TV: Increase in number of staff by 100 % in 2018</i>			Public Debt Administration	Ministry of Finance

MEASURE 10		TO IMPROVE PUBLIC PROCUREMENT LEGISLATION AND PROCEDURES					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
10.1 Procurement planning transparency improved	Mandatory publication of procurement plans on the Public Procurement Portal	4th quarter 2016	Share of procurement entities that publish PP plans at the PP Portal in the total number of procurement entities that publish PP at the PP Portal <i>IV: 0</i> <i>TV: To be determined in 2016</i>			Public Procurement Office	
10.2 The Public Procurement system is functionally and operationally upgraded	Provide training for officials and decision makers on Public Procurement Procedures	4 th quarter 2016	Number of certified officials for public procurement <i>IV: 1.810 (2015)</i> <i>TV: 2.300</i> Number of trainings for official and decision makers (20 participants) <i>IV: 2 (2015)</i> <i>TV: 2 (2016)</i> <i>TV: 2 (2017)</i> <i>TV: 2 (2018)</i>	500 EUR			

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Training/specialization of prosecutors and judges in public procurement area and more efficient investigation and sanctioning of irregularities in public procurement by judiciary.	4th quarter 2016	Number of certified officials for public procurement <i>IV: 1.810 (2015)</i> <i>TV: 2.300</i> Number of trainings for official and decision makers (20 participants) <i>IV: 2 (2015)</i> <i>TV: 2 (2016)</i> <i>TV: 2 (2017)</i> <i>TV: 2 (2018)</i>	500 EUR		Public Procurement Office	
	Implement an institutional strengthening process of the Public Procurement Office in order to increase its operational capacity	2 nd quarter 2016	Number of employees increased <i>IV: 23 (2015)</i> <i>TV: 35 (2016)</i>	330.000 EUR			

IV. EFFECTIVE FINANCIAL CONTROL

MEASURE 11 TO IMPROVE THE STRATEGIC AND LEGISLATIVE FRAMEWORK FOR IMPLEMENTING PUBLIC INTERNAL FINANCIAL CONTROL							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
11.1 Medium term PIFC Development Strategy and Framework prepared and adopted	Implementing the Strategy for the Development of Public Internal Financial Control (PIFC)	4 th quarter 2019	Meeting the objectives of the Strategy <i>IV: 0</i> <i>TV: 16</i>	100.000 EUR for co-financing	EU IPA 2013 Further support to PIFC Twinning 1,9 million EUR	Ministry of Finance	State Audit Institution Ministry of Public Administration and Local Self-Government Public Fund Beneficiaries
	Reviewing the SIGMA Assessment on the Legal Framework and Organizational and Institutional Capacities for Consolidating the system for Financial Management and Control and Indirect Management of EU Funds under IPA II, establishing a Working Group for the preparation of a Road Map for the consolidation of FMC and the Management and Control System under indirect Management for IPA II	2 nd quarter 2016	Road Map adopted (2016) <i>IV: 0</i> <i>TV: 1</i>		SIGMA	Ministry of Finance	
	Establishing a WG for the Harmonization, Coordination, Implementation and Monitoring of the Implementation of FMC and IA	4 th quarter 2016	Working group established (2016) <i>IV: 0</i>			Ministry of Finance	

	across public fund beneficiary institutions		<i>TV: 1</i>				
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS	ADDITIONAL COSTS	LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	BUDGET		
11.2 Improved legislative framework for Financial Management and Control (FMC)	Improving and updating the legislative framework including the Rulebook on Common Criteria and Standards for the establishment, functioning and reporting on FMC and the FMC Manual to introduce Management Declarations, add more clarity, update information on Risk Management Procedures and define the system for Irregularity Management	4th quarter 2016	Adopted legal acts <i>IV: 0</i> <i>TV: 1</i>		SIGMA and TAIEX will be requested Twining	Ministry of Finance	
11.3 Improved capacities of the CHU	Conducting a functional review of the CHU in order to improve its organizational, technical and administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency.	4th quarter 2016	Functional review of the CHU completed <i>IV: 0</i> <i>TV: 1</i>		SIGMA assistance will be requested	Ministry of Finance	

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
11.4 Assessment of the Quality of Financial Management and Control improved	Further development of CHU software, customized and adjusted to the operational needs for analysis and preparation of Annual Report.	4th quarter 2017	CHU software operational (2017)		SDC Project (UNDP) 90.000 USD,	Ministry of Finance	
11.5 Improved coordination and implementation of training and professional development programs for officials and civil servants on FMC and IA	Reallocation of administrative and logistical activities with regards to the organization of trainings on FMC and Internal audit to the HR Management Service of the Government of the Republic of Serbia	4th quarter 2016	Training program for FMC and CHU IA introduced in the program of overall professional development of civil servants by the HR Management Service of the Government of the Republic of Serbia <i>IV: 0</i> <i>TV: 1</i>			Ministry of Finance	HR Management Service of the Government of the Republic of Serbia
	Establish coordination with internal control specialists, the academic community and professional organizations to upgrade training plans and certification schemes	4th quarter 2016	Number of academic institutions - professional organizations that have included the CHU curriculum in their education programs <i>IV: 0</i> <i>TV: > 1</i>				
	Conduct an assessment for introducing international programs for the certification of IA	4th quarter 2016	Completed assessment for introducing international programs for the certification of Internal Auditors, <i>IV: 0</i> <i>TV: 1</i>				

MEASURE 12		TO ENHANCE THE IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS BUDGET		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
12.1 Genuine understanding of FMC as a management tool for achieving the strategic goals of the institution achieved	Support managers of public fund beneficiary institutions to achieve a better understanding of FMC and contributes to the implementation of the strategic goals of their institutions through advisory services, workshops and training	Continuous	Percentage of public fund beneficiaries at the central level in which managers of internal organizational units report on the incurred expenditure in the corresponding part of the budget of the institution <i>IV: 0%</i> <i>TV: 20% (2016)</i>			Ministry of Finance	Public Fund Beneficiary Institutions

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
12.2 Strengthened role of FMC Coordinators and units coordinating Internal Control issues	Provide hands on training and advisory support to FMC Coordinators in drafting Business Process flow charts, assisting them in drafting customized Road Maps for the further implementation of FMC in their institutions and risk management procedures.	Continuous	Establish trainings to support Coordinators in drafting Business Process flow charts, assisting them in drafting customized Road Maps for the further implementation of FMC in their institutions and risk management procedures. <i>BV: TBD</i> <i>TV: TBD</i>			Ministry of Finance	Public Fund Beneficiary Institutions

MEASURE 13							
TO SUPPORT THE INTRODUCTION AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
13.1 Genuine understanding of the role and purpose of Internal Audit	Provision of training and advisory services to managers of public fund beneficiary institutions on Internal Audit	Continuous	Increase in % of reports of state of play in Internal Audit <i>IV: to be determined each year</i> <i>TV: increase in number of reports for 8% each year in comparison with previous year data</i>			Ministry of Finance	Public Fund Beneficiary Institutions
13.2 Audit scope broadened to encompass audits of EU funded projects	Provide customized training to Internal Auditors in IPA beneficiary institutions for audits of EU funded projects implemented through IPA	4th quarter 2017	Percentage of IPA beneficiary institutions submitting Internal Audit Reports from to the National Authorizing Officer (NAO) <i>IV: To be determined (2016)</i> <i>TV: 100% (2017)</i>			Ministry of Finance	Public Fund Beneficiary Institutions

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
13.3 Cooperation between the Internal Audit Units in IPA Beneficiary Institutions and the Audit Authority for EU funds	Develop a systemic approach to cooperation between the IA Units in IPA beneficiary institutions and the Audit Authority for EU funds in order to ensure maximum and reliable audit coverage of EU funded assistance in Serbia	4th quarter 2017	IV: TBD TV:TBD			Audit Authority Office for EU Funds Ministry of Finance	Public Funds Beneficiary Institutions
13.4. Coverage of Certification Program for Internal Auditors in the Public Sector expanded	Develop a systemic outreach approach in order to increase the number of IA auditors at the local level and implement IA Certification programs at the local level and for staff of the Audit Authority for EU funds	4th quarter 2017	IV: TBD TV: TBD			Ministry of Finance	Public Funds Beneficiary Institutions

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
13.5. Optimization of Audit resources achieved	Develop a systemic approach to horizontal audits based on analysis of complexity of audit scope and available resources (i.e. Introducing Groups of Auditors for auditing several public beneficiary institutions or groups of business processes/activities which are common to several/all public fund beneficiary institutions and produce the necessary tools.	4th quarter 2018	Development of Guidelines for horizontal audits adopted by the Government <i>IV: To be determined (2017)</i> <i>BV: To be determined (2018)</i>			Ministry of Finance	Public Fund Beneficiary Institutions

MEASURE 14	TO FURTHER STRENGTHEN THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF THE AUDIT AUTHORITY FOR EU FUNDS						
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
14.1 Operational capacities of the Audit Authority for EU funds improved	Prepare and adopt the optimal legislative acts for the (re)institutionalization of the Audit Authority for EU funds	2nd quarter 2016	New Legal framework adopted (2016) Required staffing levels achieved <i>IV: 44% Percentage of job positions filled in 2015</i> <i>TV: 100% job positions filled in 2017</i>	160.000 EUR		Audit Authority for EU Funds	General Secretariat of the Government
	Conduct a functional review in order to improve its organizational, technical and administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency in line with the Framework Agreement for IPA II	1st quarter 2017					
	Ensure the appropriate number of competent staff for executing the scope of responsibility of the Audit Authority for EU fund in line with an updated Workload Analysis	3rd quarter 2017					

MEASURE 15		TO IMPROVE IRREGULARITY MANAGEMENT, ANTI-FRAUD COORDINATION AND COOPERATION AND THE PROTECTION OF THE FINANCIAL INTERESTS OF THE EUROPEAN UNION					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
15.1 The appropriate legislative framework for a PIFC compliant Financial Inspection in place	Conduct an assessment of the current legislative framework for the Budget Inspection in order to identify and plug the gaps to ensure full functionality of the Budget Inspection line with the EU requirements and SIGMA recommendations	2 nd quarter 2016	Number of legislative acts prepared and adopted <i>BV: 0 TV: TBD (2016)</i>			Ministry of Finance	
	Prepare and adopt changes to the applicable legislative acts in order to enable a full legal mandate for the Budget Inspection to carry out its scope of competency.	4 th quarter 2016					
	Preparation and adoption of a Road Map for integrating the Budget Inspection for National Budget Funds and the AFCOS	4 th quarter 2017	Road Map adopted <i>IV: 0 TV: 1 (2017)</i>				

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
15.2 Improved capacities of the Budget Inspection to carry out the activities within its legal mandate	Ensure the appropriate number of competent staff for executing Inspection Services	4 th quarter 2017	Increase in number of staff employee and trainings <i>IV: TBD in 2016 TV: 100% (2017)</i>	818.122 EUR			
15.3 Improved capacities of the Section for combatting irregularities and fraud in dealing with EU funds (AFCOS) for performing administrative checks of Irregularity Signals (continued)	Preparation of Operational Procedures for conducting administrative checks of Irregularity signals related to EU funds assistance	3 rd quarter 2016	New Operational Procedures developed <i>IV: 0 TV: 1</i>		9.000 EUR Part of DIS3 Project	Ministry of Finance	
	Increase the number of staff at the AFCOS	2 nd quarter 2016	Increased number of staff <i>IV: 2 TV: 5</i>	108.000 EUR			
	Preparation and endorsement of an Administrative Cooperation Arrangement (ACA) between the Ministry of Finance and OLAF	1 st quarter 2016	ACA endorsed <i>IV: 0 TV: 1</i>				
15.4 Anti-Fraud Strategy adopted	Preparation, consultation and adoption of a national Anti-Fraud Strategy in line with the accession requirements under Chapter 32	2 th quarter 2016	Anti-Fraud Strategy adopted <i>IV: 0 TV: 1(2017)</i>	2.500 EUR	9.000 EUR Part of activities of DIS3 Project		

V. ACCOUNTING, MONITORING AND FINANCIAL REPORTING

MEASURE 16		TO IMPROVE THE COVERAGE AND QUALITY OF BUDGET EXECUTION REPORTING					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
16.1 The coverage and quality of budget execution and fiscal reports improved	Extend the coverage of the FMIS system on a step-by-step basis to IBBs, including them in the accounting and reporting framework	1 st quarter 2018	Indirect Budget Beneficiaries included in the FMIS system <i>TV: Courts, public prosecutors and judicial institutions included (beginning of 2016)</i> <i>Prisons, cultural institutions included (2017)</i> <i>Social protection institutions (2018)</i>	1.697.300 EUR	15.000.000 EUR	Treasury Administration Ministry of Finance	Indirect Budget Beneficiaries
	Develop and fund a treasury developed roll out plan to ensure that IBBs have sufficient Information and Communications Technology (ICT) hardware, training and oversight arrangements to operate in the FMIS.	1 st quarter 2018					
	Analyze and align in-year reporting requirements and practice with best practices for budget transparency.	4 th quarter 2017					
	Review and modify the reporting details used for in-year and year-end budget execution reports (including reporting on program budget execution when applicable).	4 th quarter 2017					

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
16.2. Financial monitoring and reporting of public enterprises improved	Prepare and publish a consolidated report on Public Enterprises	1 st quarter 2017	Percentage of PU included in consolidated report <i>IV: TBD (2015)</i> <i>TV: TBD (2018)</i>		48.000 EUR	Ministry of Finance	
	Gradual systematic extension of financial monitoring and reporting of Public Enterprises to the maximum possible extent	4 th quarter 2018			60.000 EUR	Ministry of Finance	
16.3 Monitoring and reporting on arrears improved	Issue a circular reminding to all budget users of their responsibility to record contracts as they are signed on the RINO and the FMIS systems.	2 nd quarter 2016	Number of contracts entered VS payment order <i>IV: No contracts entered (2015)</i> <i>TV: All contracts entered (2016)</i>		9.000 EUR	Treasury Administration	Ministry of Finance
	Review and strengthen the penalty arrangements for failure to implement prescribed financial controls.	4 th quarter 2016					
	Extend the RINO system to include public-to-public transactions, and harmonize the coverage and definitions	1 st quarter 2016					

MEASURE 17		MOVING GRADUALLY AND SYSTEMATICALLY TOWARDS ACCRUAL BASIS ACCOUNTING					
RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
17.1 Completeness and coverage of accounting information improved through the implementation of Accrual Accounting based on IPSAS standards	Establish a government sector accounting standard setting council.	2 nd quarter 2016	Government sector accounting standard setting council established			Treasury Administration	Ministry of Finance
	Develop a gap analysis between current accounting practices and accrual IPSAS standards.	2 nd quarter 2016	<i>IV - 0</i> <i>TV - 1</i>				
	Preparing a realistic road map towards full accrual accounting in the government sector	2 nd quarter 2016	Gap Assessment Report prepared <i>IV - 0</i> <i>TV - 1</i>				
	Revise regulatory framework for compliance with accrual accounting standards throughout government sector.	4 th quarter 2020	Road Map Prepared <i>IV - 0</i> <i>TV - 1</i> Number of laws and bylaws adapted <i>IV - 0</i> <i>TV - 6</i>				

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
Continued	Prepare pro forma financial statements for 2015 in compliance with IPSAS for Central Government	2 nd quarter 2016	Pro - forma financial statements prepared <i>IV - 0</i> <i>TV - 5</i>			Treasury Administration	
	Prepare accounting policies in compliance with IPSAS 1,2,3, 5, 14, 24	4 th quarter 2016	Accounting policies prepared <i>IV - 0</i> <i>TV - 6</i>		540.000 EUR		
	Prepare for the year 2016: - financial statements for central government in compliance with IPSAS 1, 2 - consolidated cash flow statement (i.e. including central government's controlled entities: DBBs, IBBs, EBFs, SOEs, social and health funds)	2 nd quarter 2017	Financial statements and consolidated statements prepared <i>IV - 0</i> <i>TV - 2</i>				

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
Continued	Prepare for the year 2017: - financial statements for central government in compliance with IPSAS 3, 5, 14, 24 incl. previous - consolidated cash flow statement	2 nd quarter 2018	Financial statements and consolidated statements prepared <i>IV - 0</i> <i>TV - 2</i>			Treasury Administration	
	Prepare accounting policies in compliance with IPSAS 9, 12, 20, 23, 25, 32	2 nd quarter 2018	Accounting policies prepared <i>IV - 0</i> <i>TV - 6</i>		540.000 EUR		
	Prepare for the year 2018: - financial statements for central government in compliance with IPSAS 4, 19, 28, 29, 30, 36, 37, 38 incl. previous - consolidated cash flow statement	2 nd quarter 2019	Financial statements and consolidated statements prepared <i>IV - 0</i> <i>TV - 2</i>				

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Prepare accounting policies in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35	2 nd quarter 2019	Accounting policies prepared <i>IV - 0</i> <i>TV - 12</i>		540.000 EUR	Treasury Administration	
	Prepare for the year 2019: - financial statements for central government in compliance with 9, 12, 20, 23, 25, 32 incl. previous - consolidated cash flow statement	2 nd quarter 2020	Financial statements and consolidated statements prepared <i>IV - 0</i> <i>TV - 2</i>				
	Prepare for the year 2020 (compliance with all IPSASs): - consolidated financial statements in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35 incl. previous - separate financial statements	4 th quarter 2020	Financial statements and consolidated statements prepared <i>IV - 0</i> <i>TV - 2</i>		540.000 EUR		

RESULT	ACTIVITY	TIMEFRAME	INDICATORS <i>(with Initial and Targeted Values)</i>	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
(continued)	Improvement of accounting solution in FMIS and other IT systems to support accrual accounting	1 st quarter 2017	Accounting solution support accrual accounting <i>IV – not supporting TV – supporting accrual accounting</i>		536.000 EUR	Treasury Administration	
	Provide capacity building for accounting staff for the transition to accrual accounting	4 th quarter 2020	Percentage of accounting staff trained <i>IV: 0% TV: 100%</i>		200.000 EUR		

VI. EXTERNAL SCRUTINY OF PUBLIC FINANCES

MEASURE 18							
TO STRENGTHEN THE COVERAGE AND QUALITY OF EXTERNAL AUDITS							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
18.1 The State Audit Institution (SAI) carries out financial, compliance and performance audits as mandated by the Law and in line with the ISSAIs standards	Strengthening the external audit function in terms of reviewing and implementing the right mix of number of staff, their professional training and adopted methodology, applying the computer assisted audit tools (CAATs), in order to increase audit productivity and coverage.	4 th quarter 2020	<i>IV: Number of audit product (2015): 173</i> <i>TV: (2016): 188</i> <i>TV: (2017): 231</i> <i>TV: (2018): 247</i> <i>TV: (2019): 250</i> <i>TV: (2020): 253</i>	10.761.021 EUR	226.500 EUR	State Audit Institution	

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
18.2 Links between the budget process and final accounts audits improved	Analyze moving the deadline for submission of the draft Law on Final Account of the Budget of Republic of Serbia forward in the year to provide audit input earlier in the budget process to increase the time available for the SAI to audit the draft Law on Final Account of the Budget of Republic of Serbia.	4 th quarter 2017	The Budget System Law amended			Ministry of Finance	State Audit Institution Committee for Finance, State Budget and Control of Public Spending, of the National Assembly
18.3 Internal quality control and quality assurance function within the SAI fully developed and operational	Sector for Audit Methodology and Quality Control should be appropriately staffed and operational.	4 th quarter 2017	Percentage of staff positions within Sector for Audit Methodology and Quality Control <i>IV (2015): 25%</i> <i>TV (2016): 75%</i> <i>TV (2017): 100%</i> Number of staff in the Sector who attended introductory training for quality control <i>BV (2015): 0</i> <i>TV (2016): 6</i> <i>TV (2017): 8</i> Adopted internal guidelines for quality insurance based on ISSAIs	Funds stated in the measure 18.1	79.050 EUR	State Audit Institution	

RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
				BUDGET	EXTERNAL		
18.4 Systemic follow-up of implementation of audit recommendations improved	Establishing a database of audit recommendations, facilitating the identification of systemic issues and enhancing the information basis for parliamentary oversight over the executive	3 rd quarter 2018	Public registry of audit recommendations introduced <i>IV (2015): 0</i> <i>TV (2018): 1</i>			State Audit Institution	Auditees The National Assembly
MEASURE 19 TO STRENGTHEN PARLAIMENTARY SUPERVISON OVER PUBLIC FINANCES							
RESULT	ACTIVITY	TIMEFRAME	INDICATORS (with Initial and Targeted Values)	ADDITIONAL COSTS		LEADING INSTITUTION	PARTNER INSTITUTION
19.1 Proper parliamentary oversight function ensured	Making the necessary organizational arrangements to deliberate external audit work and establishing clear written procedures for deliberation and taking action for Committee for Finance, State Budget and Control of Public Spending of the National Assembly	3th quarter 2016	Procedure for deliberation of audit reports developed and adopted <i>IV: 0 (2015)</i> <i>TV:1 (2016)</i>			Committee for Finance, State Budget and Control of Public Spending of the National Assembly	SAI
	Organize meetings of the Committee for Finance, State Budget and Control of Public Spending in the form of hearing for discussion of audit reports	3th quarter 2017	Number of hearings on the findings documented in the SAI audit report <i>IV 2016: 0</i> <i>TV 2017: 1</i> <i>TV 2018: 2</i> <i>TV 2019: 3</i> <i>TV 2020: 4</i>				

ANNEX 2: PUBLIC FINANCIAL MANAGEMENT REFORM IMPLEMENTATION TIMETABLE

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
Measure 1: TO IMPROVE THE CREDIBILITY OF MACROECONOMIC FORECASTING																				
1.1. Strengthened capacities of the Ministry of Finance for Improved Macroeconomic forecasting and improved methodological approach																				
<i>Procurement, customization and implementation of the Bridge Model to improve GDP forecasting</i>																				
<i>Strengthened the capacity for carrying out long term fiscal sustainability analyses</i>																				
1.2 Ensured administrative and technical capacities of managing the EU own sources																				
<i>Establish a functional coordinating body for managing Own resource scheme</i>																				
<i>Strengthen the capacity of the coordinating body and all other institutions involved in revenue collection for correct calculation, accounting, forecasting, collection, payment and control of own resources</i>																				
MEASURE 2: TO IMPROVE THE COVERAGE OF THE NATIONAL BUDGET																				
2.1 Institutional coverage of the national budget expanded																				
<i>Gradual and systematic inclusion of own sources and budget beneficiaries into the national budget</i>																				
2.2 Expanded coverage of external sources of funding in the national budget																				
<i>Gradual and systematic inclusion of donor assistance in the national budget and budget execution documentation</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
MEASURE 3: TO FURTHER IMPLEMENT MULTI-ANNUAL PROGRAM BUDGETING ACROSS ALL LEVELS OF GOVERNMENT																				
3.1 Improved process of program budgeting																				
<i>Procurement and customization of software for the management of public finances, which connects the planning, execution and control</i>																				
<i>Customization of the software for the management of public finances in order to ensure the appropriate interface with the module for Public Policy Planning</i>																				
<i>Process analysis, monitoring and control of program budgeting and identify recommendations for improvement</i>																				
<i>Improving the methodology of the program budget and preparation of the new guidelines in accordance with the recommendations</i>																				
<i>Conducting training for civil servants to improve the program budget</i>																				
<i>Implementation of the budget cycle for 2017 in line with the improved methodology</i>																				
MEASURE 4: TO IMPROVE PUBLIC INVESTMENT PLANNING																				
4.1 A single platform for Capital Projects Planning and methodology for public investment analysis and planning established																				
<i>Evaluation of proposed public investment projects by budget beneficiaries and drafting an implementation plan</i>																				
<i>Monitoring the implementation of approved capital projects and proposing measures to improve the planning and implementation of public investment project</i>																				
<i>Harmonization of planning, evaluation and selection of all public investment projects regardless of the source of financing and reporting</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
MEASURE 5: TO IMPROVE BUDGET PLANNING																				
5.1 Improve data on the fiscal impact of legislative initiatives																				
<i>Develop methodologies for medium-term baseline estimates and costing of new policies, set up the legislative framework and provide training</i>																				
5.2 Improved planning of public funds through increased alignment with the Budget Calendar																				
<i>Improved coordination and alignment of the process of planning and programming of external assistance with the Budget Calendar</i>																				
5.3 Improved Mid-Term Planning of the budget beneficiaries through increased alignment with the Methodology for Mid-Term Institutional Planning																				
<i>Improved coordination and alignment of budget planning and execution of budget beneficiaries through compliance and alignment with the Methodology for Mid-Term Institutional Planning</i>																				
MEASURE 6: TO IMPROVE THE OPERATIONAL CAPACITIES FOR PUBLIC INVESTMENT COORDINATION AND BUDGET PLANNING																				
6.1 The operational capacity of the Budget Department improved																				
<i>Implement an institutional strengthening process of the Budget Department, and increasing its staff to increase its operational capacity and performance on budget preparation and coordination, on monitoring budget execution and in compiling detailed budget execution reports (will be addressed as a part of the functional reviews)</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
6.2. Analytical and Planning units in Public Administration Bodies introduced to support budget planning linked to policy planning																				
<i>Implement an institutional strengthening process of public administration bodies (ministries and their departments/administrations/inspectors, special organisations and governmental services) for conducting necessary analysis, planning and budgeting by introduction of analytical and planning units</i>																				
MEASURE 7: TO IMPROVE REVENUE COLLECTION																				
7.1 Tax Administration Transformation Program implemented																				
<i>Strengthening strategic management and the basic Tax Administration functions, improving organizational structure and business processes, improving services to tax payers</i>																				
7.2 Voluntary compliance with tax legislation, guidelines, and procedures improved																				
<i>Perform an analysis of (i) the legislation, including criminal legislation, guidelines, and administrative/operational procedures; (ii) information to assess tax liabilities; and (iii) impediments to contest administrative ruling on tax liability; which need to be clarified.</i>																				
<i>Review the Tax Auditors' workflow and standard operating procedures to verify if their functions and prerogatives are clear in order to minimize discretionary decisions.</i>																				
<i>Improve clarity and usefulness of tax liabilities information by establishing a dedicated taxpayer services Department/unit within the STA.</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
7.3 The Customs system improved and modernized																				
<i>Implementation of ERIAN (Risk Management System), an expert system-module whose goal is an on-line evaluation of declarations processed by the declaration processing systems according to specifications of risk models (Risk profiles) created by risk analysts in ERIAN repository of risk profiles.</i>																				
<i>Upgrading anti-corruption measures</i>																				
<i>Modernizing the Customs Laboratory</i>																				
7.4 The appeals mechanisms are improved																				
<i>Conduct a review of the independent appeals function. The main outcome of this activity should be: (i) an M&E system for appeal cases; and (ii) dissemination of resolutions including the elapsed time, and the number and size of cases</i>																				
7.5 The appropriate links between different databases within Tax Administration and between the Tax Registration System and other registration systems and established																				
<i>Processes mapping of the existing links among the Tax Administration and other registration systems and financial sector regulations, assessment of the ICT capabilities to interconnect different registries online; and preparation of a roadmap and timeline to address issues.</i>																				
<i>Assessment of internal procedures at Tax Administration to control and ensure that the Tax Registry is regularly updated</i>																				
<i>Establishment of IT facilities (ESI) in connection to the process of EU integration (request of Chapter 17)</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
7.6 More effective penalties system for non-compliant registration and declaration obligations developed																				
<i>Revision and updating of the legislation, including Criminal legislation, regarding penalties for non-complaint registration and declaration obligations.</i>																				
7.7 Improved risk management practices																				
<i>Implementation of the annual control plan based on identified risks and streamlining of headquarters control over the control plan focusing on large taxpayers improving the “strike rate” reviewing the allocation of auditors in order to ensure an optimal distribution of skills and implement an M&E system to enable managers to monitor performance.</i>																				
<i>Implementation of the annual audit plan based on the risk management criteria for the selection of cases for green, yellow, and red lanes, by improving risk profiling for authorized operators, implementing a quality control mechanism to ensure that the risk criteria have been properly applied at borders and an M&E system to enable managers to oversight performance.</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
7.8 Improved tax arrears and control information systems and oversight																				
<i>Improve the control mechanisms to get updated information about arrears. Implement more effective late payment penalties in order to encourage on time payments. Implement an ITC system to support the debt management function.</i>																				
MEASURE 8: TO IMPROVE COMMITMENT CONTROL AND CASH MANAGEMENT																				
8.1 Adequacy of approved budget quotas and cash flow planning improved																				
<i>Instituting procedures which would enable MOF to assess the reliability of reported cash needs by users of public funds, and strengthening the with the view to ensuring adequacy of budget quotas and aggregate cash requirements and strengthening the daily, monthly, quarterly cash flow planning.</i>																				
8.2 Enhanced control over multi-annual contractual commitments																				
<i>Analysis and implementing a systematic approach to approve records and monitor multi-annual contractual commitments.</i>																				
MEASURE 9: TO IMPROVE THE OPERATIONAL CAPACITIES FOR PUBLIC DEBT MANAGEMENT																				
9.1 Designed and implemented public debt management software																				
<i>Procurement, design, customization and implementation of software for the public debt management including appropriate model to improve public debt risk management, scenario analyses, stress tests and other relevant analyses</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
9.2 Established methodology for long term public debt sustainability analyses																				
<i>Development and implementation of the methodology for carrying out long term public debt sustainability analyses</i>																				
9.3 Primary dealers system introduced																				
<i>Creating and implementing the new organization of Government securities primary market by introducing the primary dealers system</i>																				
9.4 By-law for financial derivatives transactions adopted																				
<i>Preparation of documentation and implementation of legal framework for financial derivatives transactions</i>																				
9.5 Asset under management procedures adopted																				
<i>Preparation of regulations related to the asset under management</i>																				
9.6 Adopted by-law for projects' loans monitoring																				
<i>Monitoring of projects' loans – establishing of new system</i>																				
9.7 More capable Public Debt Administration staff																				
<i>Strengthening the capacities by incising the staff and implementing capacity building measures at the PDA</i>																				
MEASURE 10: TO IMPROVE PUBLIC PROCUREMENT LEGISLATION AND PROCEDURES																				
10.1 Procurement planning transparency improved																				
<i>Mandatory publication of procurement plans on the Public Procurement Portal.</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
10.2 The Public Procurement system is functionally and operationally upgraded																				
<i>Provide training for officials and decision makers on Public Procurement Procedures</i>																				
<i>Training/specialization of prosecutors and judges in public procurement area and more efficient investigation and sanctioning of irregularities in public procurement by Judiciary.</i>																				
<i>Implement an institutional strengthening process of the Public Procurement Office in order to increase its operational capacity</i>																				
MEASURE 11: TO IMPROVE THE STRATEGIC AND LEGISLATIVE FRAMEWORK FOR IMPLEMENTING PUBLIC INTERNAL FINANCIAL CONTROL																				
11.1 Medium term PIFC Development Strategy and Framework prepared and adopted																				
<i>Implementing the Strategy for the Development of Public Internal Financial Control (PIFC)</i>																				
<i>Reviewing the SIGMA Assessment for Consolidating the system for Financial Management and Control and Indirect Management of EU Funds under IPA II, establishing a Working Group for the preparation of a Road Map for the consolidation of FMC and the Management and Control System under indirect Management for IPA II</i>																				
<i>Establishing a Working Group for the Harmonization, Coordination, Implementation and Monitoring of the Implementation of FMC and IA across public fund beneficiary institutions</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
11.2 Improved legislative framework for Financial Management and Control (FMC)																				
<i>Improving and updating the legislative framework including the Rulebook on Common Criteria and Standards for the establishment, functioning and reporting on FMC and the FMC Manual to introduce Management Declarations, add more clarity, update information on Risk Management Procedures and define the system for Irregularity Management</i>																				
11.3 Improved capacities of the CHU																				
<i>Conducting a functional review of the CHU order to improve its organizational, technical and administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency.</i>																				
11.4 Assessment of the Quality of Financial Management and Control improved																				
<i>Further development of CHU software customized and adjusted to the operational needs for analysis and preparation of Annual Report.</i>																				
11.5 Improved coordination and implementation of training and professional development programs for officials and civil servants on FMC and IA																				
<i>Reallocation of administrative and logistical activities with regards to the organization of trainings on FMC and Internal audit to the Human Resource Management Service of the Government of the Republic of Serbia</i>																				
<i>Establishing coordination with internal control specialists, the academic community and professional organizations for upgrading training plans and certification schemes</i>																				
<i>Conducting an assessment for introducing international programs for the certification of Internal Auditors</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
MEASURE 12: TO ENHANCE THE IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL																				
12.1 Genuine understanding of FMC as a management tool for achieving the strategic goals of the institution achieved																				
<i>Support managers of public fund beneficiary institutions to achieve a better understanding of FMC and contributes to the implementation of the strategic goals of their institutions through advisory services, workshops and training</i>																				
12.2 Strengthened role of FMC Coordinators and units coordinating Internal Control issues																				
<i>Provide hands on training and advisory support to FMC Coordinators in drafting Business Process flow charts, assisting them in drafting customized Road Maps for the further implementation of FMC in their institutions and risk management procedures.</i>																				
MEASURE 13: TO SUPPORT THE INTRODUCTION AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION																				
13.1 Genuine understanding of the role and purpose of Internal Audit																				
<i>Provision of training and advisory services to managers of public fund beneficiary institutions on Internal Audit</i>																				
13.2 Audit scope broadened to encompass audits of EU funded projects																				
<i>Provide customized training to Internal Auditors in IPA beneficiary institutions for audits of EU funded projects implemented through IPA</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
13.3 Cooperation between the Internal Audit Units in IPA Beneficiary Institutions and the Audit Authority for EU funds																				
<i>Develop a systemic approach to cooperation between the IA Units in IPA beneficiary institutions and the Audit Authority for EU funds in order to ensure maximum and reliable audit coverage of EU funded assistance in Serbia</i>																				
13.4. Coverage of Certification Program for Internal Auditors in the Public Sector expanded																				
<i>Develop a systemic outreach approach in order to increase the number of IA auditors at the local level and implement IA Certification programs at the local level and for staff of the Audit Authority for EU funds</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
13.5. Optimization of Audit resources achieved																				
<i>Develop a systemic approach to horizontal audits based on analysis of complexity of audit scope and available resources (i.e. Introducing Groups of Auditors for auditing several public beneficiary institutions or groups of business processes/activities which are common to several/all public fund beneficiary institutions and produce the necessary tools.</i>																				
MEASURE 14: TO FURTHER STRENGTHEN THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF THE AUDIT AUTHORITY FOR EU FUNDS																				
14.1 Operational capacities of the Audit Authority for EU funds improved																				
<i>Prepare and adopt the optimal legislative acts for the (re)institutionalization of the Audit Authority for EU funds</i>																				
<i>Conduct a functional review in order to improve its organizational, technical and administrative capacities in order to raise its functionality for implementing all the defined activities which fall within its scope of competency in line with the Framework Agreement for IPA II</i>																				
<i>Ensure the appropriate number of competent staff for executing the scope of responsibility of the Audit Authority for EU fund in line with an updated Workload Analysis</i>																				
MEASURE 15: TO IMPROVE IRREGULARITY MANAGEMENT, ANTI-FRAUD COORDINATION AND COOPERATION AND THE PROTECTION OF THE FINANCIAL INTERESTS OF THE EUROPEAN UNION																				
15.1 The appropriate legislative framework for a PIFC compliant Financial Inspection in place																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
<i>Conduct an assessment of the current legislative framework for the Budget Inspection in order to identify and plug the gaps to ensure full functionality of the Budget Inspection line with the EU requirements and SIGMA recommendations</i>																				
<i>Prepare and adopt changes to the applicable legislative acts in order to enable a full legal mandate for the Budget Inspection to carry out its scope of competency.</i>																				
<i>Preparation and adoption of a Road Map for integrating the Budget Inspection for National Budget Funds and the AFCOS Group for EU funds</i>																				
15.2 Improved capacities of the Budget Inspection to carry out the activities within its legal mandate																				
<i>Ensure the appropriate number of competent staff for executing Inspection Services</i>																				
15.3 Improved capacities of the Section for combatting irregularities and fraud in dealing with EU funds (AFCOS) for performing administrative checks of Irregularity Signals																				
<i>Preparation of Operational Procedures for conducting administrative checks of Irregularity signals related to EU funds assistance</i>																				
<i>Increase the number of staff at the AFCOS</i>																				
<i>Preparation and endorsement of an Administrative Cooperation Arrangement (ACA) between the Ministry of Finance and OLAF</i>																				
15.4 Anti-Fraud Strategy adopted																				
<i>Preparation, consultation and adoption of a national Anti-Fraud Strategy in line with the accession requirements under Chapter 32</i>																				
MEASURE 16: TO IMPROVE THE COVERAGE AND QUALITY OF FISCAL AND FINANCIAL REPORTS																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
16.1 The coverage and quality of budget execution and fiscal reports improved																				
<i>Extend the coverage of the FMIS system on a step-by-step basis to IBBs, including them in the accounting and reporting framework as they are brought into the system.</i>																				
<i>Develop and fund a treasury developed roll out plan to ensure that IBBs have sufficient Information and Communications Technology (ICT) hardware, training and oversight arrangements to operate in the FMIS.</i>																				
<i>Analyse and align in-year reporting requirements and practice with best practices for budget transparency.</i>																				
<i>Review and modify the reporting details used for in-year and year-end budget execution reports (including reporting on program budget execution when applicable).</i>																				
16.2. Financial monitoring and reporting of public enterprises improved																				
<i>Prepare and publish a consolidated report on Public Enterprises</i>																				
<i>Gradual systematic extension of financial monitoring and reporting of Public Enterprises to the maximum possible extent</i>																				
16.3 Monitoring and reporting on arrears improved																				
<i>Issue a circular reminding all budget users of their responsibility to record contracts as they are signed on the RINO and FMIS systems.</i>																				
<i>Review and strengthen the penalty arrangements for failure to implement prescribed financial controls.</i>																				
<i>Extend the RINO system to include public-to-public transactions, and harmonize the coverage and definitions</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
MEASURE 17: MOVING GRADUALLY AND SYSTEMATICALLY TOWARDS ACCRUAL BASIS ACCOUNTING																				
17.1 Completeness and coverage of accounting information improved through the implementation of Accrual Accounting based on IPSAS standards																				
<i>Establish a government sector accounting standard setting council.</i>																				
<i>Develop a gap analysis between current accounting practices and accrual IPSAS.</i>																				
<i>Preparing a realistic road map towards full accrual accounting in the government sector</i>																				
<i>Revise regulatory framework for compliance with accrual accounting standards throughout government sector.</i>																				
<i>Prepare pro forma financial statements for 2015 in compliance with IPSAS for Central Government</i>																				
<i>Prepare financial reports in compliance with IPSAS</i>																				
<i>Prepare accounting policies in compliance with IPSAS 1,2,3, 5, 14, 24</i>																				
<i>Prepare for the year 2016: - financial statements for central government only in compliance with IPSAS 1, 2 - consolidated cash flow statement (i.e. including central government's controlled entities: DBBs, IBBs, EBFs, SOEs, social and health funds</i>																				
<i>Prepare for the year 2017: - financial statements for central government only in compliance with IPSAS 3, 5, 14, 24 incl. previous - consolidated cash flow statement</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
Prepare for the year 2018: - financial statements for central government in compliance with IPSAS 4, 19, 28, 29, 30, 36, 37, 38 incl. previous - consolidated cash flow statement																				
Prepare accounting policies in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35																				
Prepare for the year 2019: - financial statements for central government in compliance with 9, 12, 20, 23, 25, 32 incl. previous - consolidated cash flow statement																				
Prepare for the year 2020 (compliance with all IPSASs): - consolidated financial statements in compliance with IPSAS 13, 16, 17, 18, 21, 22, 26, 27, 31, 33, 34, 35 incl. previous - separate financial statements																				
Improvement of accounting solutions in FMIS and other IT systems to support accrual accounting																				
Provide capacity building for accounting staff for the transition to accrual accounting																				
MEASURE 18: TO STRENGTHEN THE COVERAGE AND QUALITY OF EXTERNAL AUDITS																				
18.1 The State Audit Institution (SAI) carries out financial, compliance and performance audits as mandated by the Law and in line with the ISSAIs standards																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
<i>Strengthening the external audit function in terms of reviewing and implementing the right mix of number of staff, their professional training and adopted methodology, applying the computer assisted audit tools (CAATs) in order to increase audit productivity and coverage</i>																				
18.2 Links between the budget process and final accounts audits improved																				
<i>Analyse moving the deadline for submission of the draft Law on Final Account of the Budget of Republic of Serbia forward in the year to provide audit input earlier in the budget process to increase the time available for the SAI to audit the draft Law on Final Account of the Budget of the Republic of Serbia</i>																				
18.3 Internal quality control and quality assurance function within the SAI fully developed and operational																				
<i>Sector for Audit Methodology and Quality Control which should be appropriately staffed and operational.</i>																				
18.4 Systemic follow-up of implementation of audit recommendations improved																				
<i>Establishing a database of audit recommendations, facilitate the identification of systemic issues and enhancing the information basis for parliamentary oversight over the executive.</i>																				
MEASURE 19: TO STRENGTHEN PARLAIMENTARY SUPERVISION OVER PUBLIC FINANCES																				
19.1 Proper parliamentary oversight function ensured																				
<i>Making the necessary organizational arrangements to deliberate external audit work and establishing clear written procedures for deliberation and taking action for Committee for Finance, State Budget and Control of Public Spending of the National Assembly</i>																				

PROGRAM MEASURES/RESULTS /ACTIVITIES	2016				2017				2018				2019				2020			
	1Q	2Q	3Q	4Q																
<i>Organize meetings of the Committee for Finance, State Budget and Control of Public Spending in the form of hearing for discussion of audit reports</i>																				

ANNEX 3: PUBLIC FINANCIAL MANAGEMENT REFORM IMPLEMENTATION STATISTICS

IMPLEMENTATION BY QUARTER (No.)	2016				2017				2018				2019				2020				CONT.	TOTAL
	1Q	2Q	3Q	4Q																		
MEASURES						2	2	3	1			3				1				7	7	19
RESULTS		2	1	5	5	3	2	13	5		1	9				1				9	9	56
ACTIVITIES	3	11	2	15	9	3	2	19	6		1	10		1		1				11	7	96

IMPLEMENTATION BY YEAR (No.)	2016	2017	2018	2019	2020	CONT.	TOTAL
MEASURES		7	4	1	7	7	19
RESULTS	8	23	15	1	9	9	56
ACTIVITIES	31	33	17	2	7	7	96

IMPLEMENTATION BY YEAR (%)	2016	2017	2018	2019	2020	CONT.	TOTAL
MEASURES		37	21	5	37	37	100%
RESULTS	15	41	27	2	16	16	100%
ACTIVITIES	32	34	18	2	7	11	100%