

## INTRODUCTION

The 2019 Report on the implementation of the Public Financial Management Reform Programme 2016- 2020 (hereinafter referred to as: the Programme implementation Report) was prepared by the Ministry of Finance of the Republic of Serbia, with active participation of the ministries and institutions participating in the Working Group on drafting, monitoring and reporting on the implementation of the Public Financial Management Reform Programme (hereinafter referred to as: the Programme Working Group) and Programme Technical Secretariat. In 2019 the Programme was revised, and on that occasion, activities, indicators and cost estimate of reform activities were significantly enhanced. The reviewed Programme was adopted in September 2019 for the period July 2019-December 2020. Bearing this in mind, the 2019 Report is specific given that it includes the results achieved in the first half of the year in line with the old Programme, and the results achieved in the second half of the year, in line with the revised Programme. The revised Programme was drafted in close cooperation with SIGMA experts and in regular consultations with the European Commission, and it reflects reform measures the Ministry of Finance and partner institutions are aiming to achieve by the end of 2020.



“It is important for the citizens to recognise that in economic terms, 2019 was rather successful given that economic growth, according to the Statistical Office of the Republic of Serbia, amounted to 4.2%, that public debt is under control and currently at the level below 50%, and that the budget is in surplus fourth year in a row, and also that Serbia had registered a record-breaking inflow of foreign direct investments of EUR 3.8 billion”.

*Siniša Mali, Minister of Finance*

On 31 March 2020, Minister of Finance in the Government of the Republic of Serbia, Siniša Mali, presented the Programme of Economic Support Measures for Serbian economy and mitigation of the negative effects caused by the Covid-19 virus pandemic. “Although the crisis caused by the virus the economy is facing is of global character, in the past years Serbia has been implementing a wise fiscal policy, which is why it is now ready to take the largest share of the crisis burden onto itself. We are more ready than ever, economically strong, with stable public finance”, stressed the Minister.

The reserves created owing to the reforms are today being used to neutralise the adverse effects of the crisis. Public debt is under 50% of GDP, and four years in a row we have recorded

a budget surplus. In the last quarter of the previous year, Serbia registered the highest growth in Europe, amounting to 6.2%.

The Programme of Economic Measures is worth EUR 5.1 billion or RSD 608.3 billion. The Economic Programme has a two-sided goal- to assist the economy, especially private sector, in staying stable, but also to retain jobs and salaries. Economic measures are divided into four groups: fiscal policy measures, direct assistance to private sector, liquidity maintenance measures and direct assistance to all citizens in the Republic of Serbia above the age of 18.

## **EXECUTIVE SUMMARY**

The Public Financial Management Reform Programme 2016- 2020 (the Programme) was adopted by the Government of the Republic of Serbia at the end of 2015, aiming to achieve better balance and sustainability of the budget, with reduced public debt level, to strengthen financial management and oversight and improve the audit oversight process. The PFMRP follows the budget cycle in whole, with the purpose to contribute to improved linking of budget execution with different governmental policies, thus to increased transparency of these processes.

Public financial management is crucial for the European Integration process and is linked to a large number of negotiating chapters, majority of which were opened in negotiations with the European Union (Chapter 5- Public procurement, Chapter 17- Economic and monetary policy, Chapter 29- Customs Union and Chapter 32- Financial control and Chapter 33- Financial and budgetary provisions), and in scope of monitoring the implementation of the Stabilisation and Accession Agreement, public finance reform is being discussed within the Special Public Administration Reform Group.

The revised Public Financial Management Reform Programme for the period July 2019- December 2020 includes carefully formulated activities, with developed indicators and identified sources of verification, same as the detailed cost estimate which was not sufficiently accurately presented in the 2015 Programme.

Since the onset of the Programme implementation, considerable progress has been achieved in many areas. Along with the difficult, however accountable fiscal consolidation measures, Programme implementation has contributed to stabilisation of public finance and paved the road for exquisite results achieved in the past several years. In 2019, the programme budgeting and mid-term planning processes continued being improved; planning and monitoring of capital projects were also enhanced; Tax Administration transformation process was accelerated; public debt management continued to be improved; further progress was achieved in improving the area of public procurement; the area of financial management and control and internal audit were strengthened; further progress was made in the area of combating irregularities and fraud in management of EU funds and recovery of funds; budget inspection operation was reinforced; parliamentary oversight of public finance and the work of the State Audit Institution were additionally strengthened.

Three years following the onset of the Programme implementation and consultations with the Programme Working Group, European Commission and SIGMA experts, it was decided to undertake the audit of the Programme containing updated activities, new indicators

and sources of verification and reliable implementation cost estimate. The revised Programme was compiled in the first half of 2019 and adopted at the session of the Government of the Republic of Serbia held on 26 September 2019.

At the end of 2019 and within the launch of preparation of the new umbrella Public Administration Reform Strategy, the process of drafting the new Public Financial Management Reform Programme for the period 2021- 2025 was initiated. In accordance with the Planning System Law of the Republic of Serbia, phase one implied the state of play analysis and formulation of the overall goal of the new Programme. After finalising its work on drafting the 2019 Report on the Public Financial Management Reform Programme implementation, the Programme Working Group will continue working on drafting the new Programme and the accompanying Action Plan, in cooperation with SIGMA experts. In the period between June and August 2020, workshops will be delivered for the Programme Working Group members, whereat new activities, performance indicators and sources of verification are to be formulated, same as the estimate of funds necessary for their implementation. This deadline was postponed compared to the initially planned one, having in mind that SIGMA consultants will not be available most probably until June, due to travel restrictions introduced because of the COVID-19 virus pandemic.

In scope of the PFMRP Action Plan implementation, capacities of the Ministry of Finance IT system have been significantly improved. Budget Information System was developed for budget preparation purposes. Budget Execution Information System (in Serbian: ISIB) was improved, which enabled inclusion of 529 indirect budget beneficiaries (IBB) in the budget execution system. The system for electronic completion and collection of annual reports on the state of play in the area of financial management and control by the budget beneficiaries was developed and tested. In addition to the usual filing of reports in written form, the Electronic Reporting System, planned to be introduced as mandatory as of 2021, is to be tested for the first time in 2020. The Public Debt Management System was improved, *AuditDoc* software for document review and handling was introduced, same as the Unified Information System for Public Policy Planning and Monitoring (in Serbian: JIS) of the Government of the Republic of Serbia Public Policy Secretariat.

Major challenges in the implementation of the planned reform measures in 2019 have, same as so far, been of technical nature in the majority of cases, namely, arising due to the delay in the delivery of the project supporting the Programme implementation, same as due to administrative capacities given the limited opportunities for new hiring and drain of professional staff. In 2019, the focus was on training of staff implementing the PFMRP pillars, especially in the context of previously adopted strategic documents and legislation, and on the use of IT systems established in the previous period. The reporting process on the results achieved contributed to a considerable upgrade in analytical capacities of all stakeholders in the PFM domain, and especially in the area of mutual coordination, but also in terms of a more realistic planning of further steps, implementation time frames and necessary funds.

In addition to regular financing from the budget, significant support during the Programme preparation and implementation was provided by the European Commission (Sector Budget Support, IPA projects, TAIEX, SIGMA) and Federal Republic of Germany via the Development Cooperation project “Public Finance Reform- Financing 2030 Agenda” implemented by GIZ. The support was also rendered by the World Bank, MMF, OECD and

UNDP, same as by the Governments of Sweden, Switzerland, United Kingdom, USA, Slovak Republic, etc. In 2019, implementation of complementary assistance projects for the public financial reform was launched, within the sector budget support from 2015 IPA. Following a rather slow start of this project's implementation, it is expected that delivery of the planned activities will be accelerated in the forthcoming period.

The Sector Budget Support (SBS), an IPA instrument used under 2015 IPA and 2016 IPA, to public administration sectors (including public finance reform), education and integrated border management domains, represents an important form of financial support, and one of the key preconditions for it to be used, is the progress made in the area of public financial reform.

To date, three Sector Budget Support Programmes were granted to the Republic of Serbia, as follows:

- 1) Public Administration Reform Sector (2015 IPA) up to maximum EUR 80 million, of which up to EUR 70 million as direct budget support and EUR 10 million as complementary technical assistance;
- 2) Education Sector (2016 IPA) up to maximum EUR 80 million, of which up to EUR 24 million as direct budget support and EUR 3.4 million as complementary technical assistance;
- 3) Integrated Border Management Sector (2016 IPA) up to maximum EUR 28 million, of which up to EUR 24 million as direct budget support and EUR 4 million as complementary technical assistance.

Disbursement of the SBS is conducted in tranches, with fixed and variable tranches being in place. The requirement for disbursement of fixed tranches implies meeting the following general preconditions, of which the Ministry of Finance is responsible for the initial three:

- a) Macroeconomic stability
- b) Budget transparency
- c) PFM Programme implementation
- d) Sector Strategy implementation (PAR Strategy, Education Strategy and Integrated Border Management Strategy implementation).

The precondition for disbursement of variable tranches entails meeting the indicators, i.e. targets defined in the process of the Sector Reform Contract drafting. The Ministry of Finance, Department for International Cooperation and European Integration participates in coordination of the Self-assessment Report drafting, prepared by the competent ministries once a year, in scope of preparation of requests for the disbursement of funds. The Report contains information on meeting general and variable preconditions and is thereafter submitted to the European Commission.

Disbursement of tranches from the SBS programme is usually undertaken at the end of the year, from three special purpose accounts opened with the National bank of Serbia, for each of the three sectors (Public Administration Reform, Education and Integrated Border

Management), and then transferred by the Ministry of Finance to the budget account held with the Treasury Administration.

The estimated public administration reform costs are stated in the *Medium-Term Expenditure Framework- MTEF* for the public administration reform, including the public financial management reform domain, which is regularly being updated. Taking into account the large financial burden of the reform, which has been evaluated in detail during the Programme Action Plan review, in the coming period additional support will be needed to successfully implement the Programme.

## AGGREGATE OVERVIEW

Assisted by the fiscal consolidation measures and structural reforms, Government of the Republic of Serbia established stable public finance, same as stable macroeconomic environment, accompanied by the downward public debt trajectory. In February 2018, Republic of Serbia has successfully completed the fiscal consolidation programme which was the backbone of a three-year precautionary arrangement with the IMF. Successful implementation of economic programme contributed to reaching the set targets ahead of the deadline. As of July 2018, the new economic programme and reform efforts of the Government have been supported by the IMF Policy Coordination Instrument, implying advisory role over the period of 30 months, however without financial support, given that the achieved fiscal improvements are of permanent character. This instrument represents support in the continuation of the structural reform implementation aimed at maintaining the reached macroeconomic and financial stability, job creation and economic growth acceleration.

The basic objective of fiscal consolidation, stopping further growth and gradual public debt reduction, was achieved at the end of 2016. More importantly, over the years of fiscal consolidation, Serbia managed to achieve actual GDP growth of 3.3% in 2016, 2% in 2017, 4.3% in 2018, and 4.2% in 2019.

Speaking about macroeconomic environment, positive trend initiated in 2015 continued to date, which has also been verified by important macroeconomic indicators. Economic growth was registered fifth year in a row, and it was directly contributed by the successfully implemented fiscal consolidation measures and maintained fiscal discipline. The data available shows that the growth rate in 2019 amounted to 4.2%, thus exceeding the projection of 3.5%, with the accelerated growth at the end of the year being the product of construction growth, continued public investments and recovery of industrial production.

Likewise, owing to stable public financial and macroeconomic climate, the public debt level is on the stable downward trajectory, from 71.2% in 2015 to 52.9% at the end of 2019. Budget of the Republic of Serbia registered a surplus in 2017 and 2018 of 1.1% and 0.6%, respectively. This trend was continued third year in a row, therefore the budget surplus at the end of 2019 amounted to RSD 12.9 billion. In 2018 a positive fiscal trend continued, with the achieved fiscal surplus of 0.6% of GDP, which is by 1.2% of GDP better than planned. Good results and efforts were recognised by the credit rating agencies, which was reflected in the improved credit rating published on 13 December 2019 by the Standard and Poor's Credit Rating Agency, assessed to BB+.

The unemployment rate was reduced by more than 50% over the past 7 years (9.5% in the third quarter of 2019 vs. 25% in 2013), accompanied by the improved labour market accomplished by employment of a large number of women and youth, leading to permanent reduction in the number of the unemployed.

The inflow of foreign direct investments at the end of 2019 amounted to EUR 3.5 billion, thereby exceeding the current account deficit (118.9%). The investments were mostly focused on production (26%), construction (24%), financial sector (15%) and transport (11%), and we are convinced that FDIs will, together with efforts invested in the construction area, contribute to a much stronger growth in the first half of 2020.

Progress was also made in the Tax Administration reform via the Tax Administration Transformation Programme for the period 2018- -2023, reinforced public financial management, resolving the issue of state-owned enterprises and privatisation of the largest state-owned bank-Komercijalna banka. What lies ahead are further measures pertaining to combating shadow economy, public administration reform and strengthening corporate governance in public and state-owned enterprises, with the continuation of the public financial reform and introduction of new and sound fiscal rules.

In addition to efforts invested in the public finance stabilisation, Republic of Serbia has recognised budget transparency as one of the key elements of good governance, with the efforts invested by the Government in providing understandable, timely and relevant budget information visible in the public policy documents referring to public administration reform and public financial reform.

Enhanced harmonisation of budget beneficiaries' programme structures with the Instruction on the programme budget preparation (from 61% in 2016 to 87% in 2019) has contributed to budget transparency, same as the annual publishing of the Citizens Guide to Budget, providing all relevant information on the budget cycle to the public. Apart from the aforementioned, adoption of the Budget System Law in April 2018, enabled better coordination of the public policy planning and budgeting.

Fiscal consolidation, together with the broader programme of the related structural reforms, has set the framework and context of the PFM design and progress in the implementation of the planned reforms. The fiscal policy objective in the coming mid-term period is reaching relatively low fiscal deficit of 0.5% of GDP, enabling a drop of the public debt share under 50% of GDP. Owing to the fiscal consolidation measures, fiscal space was created which was in 2019 used to upscale capital investments, abolish austerity measures imposed on pensions and salaries, increase lowest pensions and increase public sector salaries, and also for reducing tax burden on labour. Based on the mid-term macroeconomic forecast, cumulative growth rate in the period 2019-2021 will amount to 11.9% and will be allocated in line with the domestic demand growth. On average, Serbian economy will grow at the rate of 3.8%. In parallel, public debt will be reduced, reform processes intensified and fiscal discipline will be insisted on.

The Government of the Republic of Serbia remains committed to the full-fledged membership with the European Union, as a strategically set goal, with the Chapter 4- Free movement of capital and Chapter 9- Financial services being opened in 2019. Republic of Serbia is participating in the economic policies' coordination system with the EU in the European "light" semester for the Western Balkans and Turkey, through preparation of the Economic Reform Programme which is very important for the negotiating Chapter 17- Economic and monetary union.

In scope of the public financial management reform implementation, analytical capacities of the Ministry of Finance and other relevant institutions involved in the reform, have been significantly reinforced. Introduction of new organisational solutions, new models and analytical

instruments, softwares, training, improved data transparency, all enabled better public insight into the flow of public finance, and introduction of EU standards in this area.

The challenges identified in the administrative capacity building domain include limited opportunities for new staff hiring and staff drain. The next challenge entails investments in improving and linking IT capacities, sustainability and inclusion in the digitization process, which is a precondition for any modern public administration and a basis for an efficient public financial management system.

### **Progress achieved under the Pillar-Planning and Budgeting of Public Expenditures**

Since 2015 when programme budget was introduced for all public funds' beneficiaries, there has been ongoing work on enhancing planning and budgeting processes. The budget beneficiaries' budget structure is increasingly being harmonised with the Instruction on the programme budget development, and significant progress was achieved in part relating to monitoring and reporting on the previous year performance.

The Planning System Law of the Republic of Serbia adopted in 2018 ("Official Gazette of RS", No. 30/18) was additionally improved through adoption of the Decree on the Methodology for Public Policy Management, Public Policy and Regulatory Impact Analysis and Content of Individual Public Policy Documents and the Decree on the Methodology for mid-term Planning ("Official Gazette of RS", No. 8/19).

Likewise, provisions pertaining to the development of mid-term plans are additionally clarified and elaborated in the Manual on mid-term Planning which was finalized and published on the Public Policy Secretariat website on March 9, 2020, and efforts are also being invested in further improvement and establishment of the overall operation of the Unified Information System (in Serbian: JIS). Piloting of the mid-term plans elaboration was successfully completed in certain ministries, primarily the Ministry of Health, Ministry of Public Administration and Local Self-Government and Public Policy Secretariat.

A new Decree on the Capital Project Management was adopted on 19 July 2019. Government of the Republic of Serbia has passed the Decision on the establishment of the Capital Investment Commission tasked with ranking of capital investments in line with the priority objectives laid down in the applicable planning documents. In the last quarter of 2019 rulebooks and templates were passed in accordance with the applicable Decree on Capital Projects.

### **Progress achieved under the Pillar-Efficient and Effective Budget Execution**

Tax Administration continued implementing the Tax Administration Transformation Programme and the related Action Plan for the period 2018- -2023.

The Act on Internal Organisation and Job Classification in the Ministry of Finance- Tax Administration of 7 January 2019, including the business network where core and extended activities will be separately conducted, was adopted by the Government of the Republic of Serbia. This created conditions for re-allocation of staff in line with the new organisational network of 1 July 2019.

Business network of core activities comprises 37 branch offices at 37 locations, same as the Center for Large Taxpayers (in Serbian: CVPO) as a separate organisational unit. In this way, in the first phase of reorganisation, concentration of control and collection functions was undertaken in 37 locations, and the plan is for these functions to be located at 8 to 12 locations by 2023.

As of 1 March 2019, an application was launched enabling taxpayers to obtain: certificates on the paid liabilities in all public revenue payment accounts, certificates on the paid health insurance benefits, certificates on the paid value added tax and certificates on the paid taxes and benefits after deduction to BOP (consolidated collection) electronically.

In 2019, a trend was continued pertaining to increased collection of revenues from import duties, which compared to 2018 were higher by EUR 565.5 million.

Customs Administration continued strengthening their administrative and operational capacities, and also implementing activities relevant in the areas of establishing the EU's Traditional Own Resources System, ERIAN risk analysis system implementation, Customs laboratory modernisation and improving anti-corruption measures.

In 2019, Customs Administration activities were focused on further improvement of IT support in selectivity of inspections in transit procedures; ongoing control of high-risk consignments was performed in imports, exports and transit for the entire customs area of the Republic of Serbia.

The public debt decline trend in GDP was continued in 2019, and according to the preliminary data, the general state public debt share in GDP at the end of December 2019 amounted to 52.9%. In 2019 cooperation was initiated with Euroclear with the intention to facilitate foreign investors' access to domestic securities market, which would lead to further decline in borrowing costs of the Republic of Serbia.

In 2019, Republic of Serbia appeared twice in international financial market and confirmed lowest interest rates on the sovereign securities issued so far. In June 2019, Republic of Serbia has successfully issued first sovereign Euro-denominated bond with maturity of 10 years in the total amount of EUR 1.0 billion, at the lowest interest rate of 1.5% (coupon rate) and yield of 1.619% listed on the London Stock Exchange, whereby the demand reached the record-breaking EUR 6.4 billion. At the re-opening of the said Euro-bond issue in November, Republic of Serbia sold additional EUR 550 million in bonds with the yield of 1.25%, which is by even 37 basis points lower compared to the initial yield bond rate issued in June 2019.

At the proposal of the Public Procurement Office, in November 2019 Government of the Republic of Serbia adopted the Public Procurement Development Programme for the period 2019-2023 setting forth public policy in the area of public procurement over the 5-year period. This programme comprises four specific objectives and one overall goal "Further development of a modern and efficient public procurement system". Guidelines for the green procurement improvement were completed and published on the website of the Public Procurement Office.

Further harmonisation with the European Union directives was performed through adoption of the Public Procurement Law ("Official Gazette of RS", No. 91/19) on 24 December 2019. The new Public Procurement Law entered into force on 1 January 2020, to become effective on 1 July 2020. In addition, development of the new Public Procurement Portal is under way.

## **Progress achieved under the Pillar-Effective Financial Control**

On 4 April 2019, Government of the Republic of Serbia adopted the new Action Plan for the implementation of the PIFC Strategy 2017-2020, covering the period 2019-2020.

The Manual for Financial Management and Control was updated and published in February 2019. The most important amendments referred to introduction of the new 2013 COSO framework. The Rulebook on professional development of certified public sector internal auditors was adopted and entered into force on 16 March 2019; it sets forth the areas and forms, criteria for recognition, reporting and records on professional development.

In December 2019, amendments and supplements to the Rulebook on the common criteria and standards for establishment, functioning and reporting on the ICF in budget beneficiaries (hereinafter referred to as: FMC Rulebook). The FMC Rulebook was harmonised with the amendments to international internal control standards (INTOSAI) including the 2013 COSO framework “Internal Control- Integrated Framework”.

Activities under the pilot project have been delivered, aimed at the implementation of the FMC good practice in pilot institutions, with a focus on the implementation of the managerial accountability concept. Guidelines and methodological framework have also been developed, in line with the examples of good practice to be used for managerial accountability.

In 2019, CHU analysed the needs for amendments to legal framework in the Budget System Law and related rulebooks in the area of PIFC.

In cooperation with SIGMA experts, analytical approach was improved, same as the content and form of the 2019 Consolidated Annual Report on the State of Play in the Public Internal Financial Control System (hereinafter referred to as: Consolidated Annual Report) especially in terms of structure, statistics and analyses undertaken. Recommendations issued were more of systemic nature and less focused on the CHU. An emphasis was also placed on the monitoring of recommendations from the EC Progress Report and rectification of systemic weaknesses.

The Government adopted the 2018 Consolidated Annual Report on the Status of the Internal Financial Control System (hereinafter referred to as: Consolidated Annual Report) on 5 September 2019. According to the data presented in the 2018 Consolidated Annual Report, there were 463 internal auditors in total who have acquired the title of an “certified public sector internal auditor”, of whom 346 working on the internal audit matters. The draft guidelines for establishing the internal audit function in smaller budget beneficiaries were elaborated, regarding the organisation of joint internal audit units.

On 5 September 2019, Minister of Finance issued the Directive on the Operation and Manner of Action of the Division on combating irregularities and fraud in management of EU funds (AFCOS) regarding the reported, and in other ways recorded, irregularities and suspected fraud in management of the European Union funds in the Republic of Serbia (hereinafter referred to as: “Directive”), thus reinforcing the department, followed by administrative checks of the reported irregularities in management of the European Union funds. The risk analysis of all bodies participating in the EU funds management was undertaken to define the areas of risk of irregularities and fraud, and Methodological instruction on risk management regarding the

incidence of irregularities and fraud in management of the European Union funds (hereinafter referred to as: “Methodological Instruction”) including related annexes.

In November 2019, the Rulebook on the manner and actions of the budget inspection in performing oversight of implementation of the Law on the deadlines for settling liabilities in commercial transactions (“Official Gazette of RS”, No. 78/2019) was passed. This Rulebook laid down the manner and procedure of performing oversight of the implementation of the said law in cases when transactions were being executed between the public sector and companies where public entities were debtors, same as among the public entities, and the manner and procedure of taking over the data on the unsettled liabilities of public enterprises from the information system of the Treasury Administration.

In December 2019, Methodology on the Budget Inspection Operation was adopted, aimed at proper and harmonised actions and work of the Budget Inspection of the Ministry of Finance, Budget Inspection Service of the Autonomous Province and Budget Inspection Service of local government units.

### **Progress achieved under Pillar-Public Sector Accounting**

As of 1 January 2019, indirect beneficiaries of the Ministry of Labour, Employment, Veteran and Social Issues- Institutions of Social Protection, were included in the budget execution system, whereby that figure reached 529. Introduction of the accrual-based accounting was planned as a long-term objective, by 2030. A draft comparative analysis was elaborated with the countries implementing International Accounting Standards in their public sectors, and the continuous training process was launched to develop accounting capacities in the public sector.

### **Progress achieved under the Pillar-External Scrutiny of Public Finances**

In 2019, activities strengthening external scrutiny of public finances were continued. Twelve performance audits and 55 compliance audits were delivered. The State Audit Institution published 240 audit reports in 2019. For the first time since its establishment, the SAI performed the audit of the 2018 Consolidated Financial Statement of the Republic of Serbia.

In 2019, 283 response reports of audited entities were published, along with 280 post-audit reports on the SAI website. Taking into consideration that post-audit reports had become publicly available, for the first time SAI was in the position to report on the total number of audit products delivered and published on the SAI website; in 2019 there were 520 of them.

Further improvement of the scope and quality of external audits was achieved through implementation of manuals and guidelines harmonised with the ISSAI standards. In line with the Manual on quality assurance and quality control, 17 “hot” and 7 “cold” reviews of audit reports were published in 2019.

The IT audit methodological rules and guidelines in line with ISSAI standards and best international auditing practices were adopted. Further development of the Methodology for monitoring and evaluation of the follow-up effects of recommendations was continued.

The National Assembly Committee on Finance, State Budget and Public Funds Spending (“Committee”) continued with their activities in 2019 related to the discussion of the SAI reports

in the local government units so as to promote accountability, transparency and efficiency in public funds spending, and raise awareness on the importance of the oversight function of the National Assembly. In the presence of the State Audit Institution and competent ministry representatives, the Committee held three sessions out of their seat, whereat reports of the institution were presented and initiatives for regulatory amendments and supplements concerning financial reporting and public procurement discussed. Moreover, together with the representatives of the State Audit Institution and the Ministry of Finance, the Committee organised one consultative meeting on the SAI recommendations concerning regulatory amendments.

Following the adoption of these reports, in the presence of representatives of the SAI and the Ministry of Finance, Committee considered new legal solutions proposed in the Accounting Law Bill, Audit Law Bill and Public Procurement Law Bill. Aside from this, the issue of further improvement of mutual relationship between the Committee and SAI was raised, through discussion of topics for the future performance audits.

Given that the Government of the Republic of Serbia has forwarded to parliamentary procedure the proposed Law on Final Accounts of the Republic of Serbia for the period 2002-2018, and that the SAI report on the budget final account audit makes an integral part of the final budget account, the Committee discussed the SAI reports on the audits of the final accounts of the Republic of Serbia budget for the period 2008- 2018 (11 reports in total).

## **PROGRESS ACHIEVED BY PILLARS**

### **PILLAR-PLANNING AND BUDGETING OF PUBLIC EXPENDITURES**

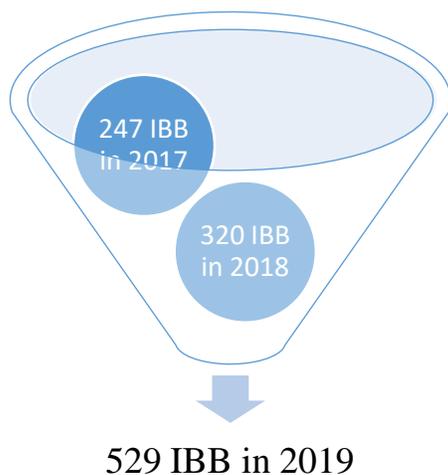
#### **MEASURE-EXTENDING THE STATE BUDGET SCOPE**

##### **Key results by the end of 2018**

- The improved scope of the State budget provides a better basis and more reliable information of the budget execution used by the Ministry of Finance Budget Sector for a more accurate planning of expenditures of indirect budget beneficiaries;
- As of 1 January 2018, Budget Execution Information System (in Serbian: ISIB) of the Treasury Administration included additional 73 indirect budget beneficiaries (Institutions for enforcement of criminal sanctions, Solidarity Fund, Socioeconomic Council and culture institutions). Since 2016, in total 320 indirect budget beneficiaries have been included in the ISIB;
- Significant progress was achieved by inclusion of project loans in the 2017 Budget Law, same as through preparation of financial plans of public enterprises in parallel with the budget of the Republic of Serbia.

## Progress achieved in 2019

Since 1 January 2019, additional 209 indirect budget beneficiaries were integrated into the ISIB (social protection institutions).



*Illustration 1: Number of indirect budget beneficiaries included in the budget execution system (total)*

## Financing of the measure

Activities are funded from the budget of the Republic of Serbia and with the support of the IMF and World Bank.

## Key challenges

- Improving the indirect budget beneficiaries' revenue and expenditure planning process based on information on execution of their revenues and expenditures;
- Administrative and technical capacities of indirect budget beneficiaries integrated with the budget execution system;
- To overcome these challenges, Treasury Administration has been providing ongoing support to beneficiaries.

## Planned in the upcoming period

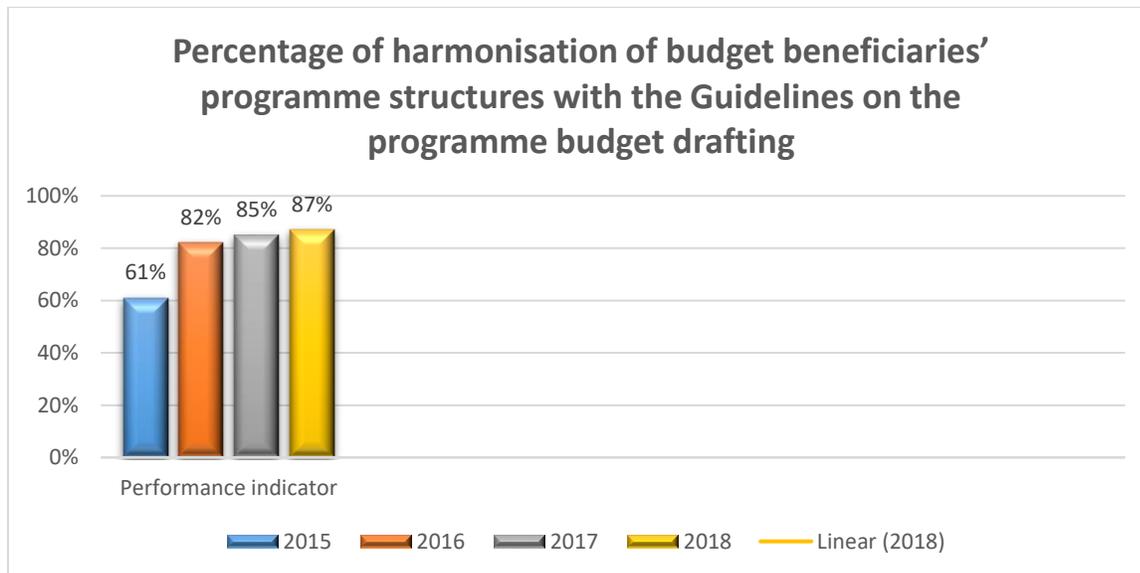
The measure is fully implemented. What lies ahead is the continuous upgrade of the results achieved in the past period.

## MEASURE-FURTHER IMPLEMENTATION OF PROGRAMME BUDGETING AT ALL GOVERNMENT LEVELS

### Key results by the end of 2018

- Budget Information System (BIS) was developed in 2016 and successfully tested in 2017;
- In 2017, performance-based reporting was launched;
- Instruction on the Programme Budget Development was improved;
- Programme structure was improved;

- Citizen’s Guide to the Budget of the Republic of Serbia was developed and published on the website of the Ministry of Finance for 2015<sup>1</sup>, 2017<sup>2</sup> and 2018<sup>3</sup>;
- Budget transparency was extended through introduction of legal obligation to publish programme information and reports on the achieved performance on the websites of budget beneficiaries;
- In 2018, in cooperation with the Human Resources Management Service (in Serbian: SUK) and National Academy of Public Administration, training sessions were delivered for budget beneficiaries in the area of the programme budget preparation and programme performance reporting;
- Capacities of civil servants for the programme budget drafting and programme performance reporting were enhanced;
- Through adoption of the Planning System Law on 20 April 2018 (“Official Gazette of RS”, No. 30/18), results-based management was introduced.



*Graph 1: Percentage of harmonisation of budget beneficiaries' programme structures with the Guidelines on the programme budget drafting*

<sup>1</sup> [https://civilnodrustvo.gov.rs/upload/documents/Publikacije/2015/Gradjanski\\_vodic\\_kroz\\_budzet.pdf](https://civilnodrustvo.gov.rs/upload/documents/Publikacije/2015/Gradjanski_vodic_kroz_budzet.pdf)

<sup>2</sup> [http://www.mei.gov.rs/upload/documents/eu\\_dokumenta/godisnji\\_izvestaji\\_ek\\_o\\_napretku/izvestaj\\_ek\\_o\\_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf)

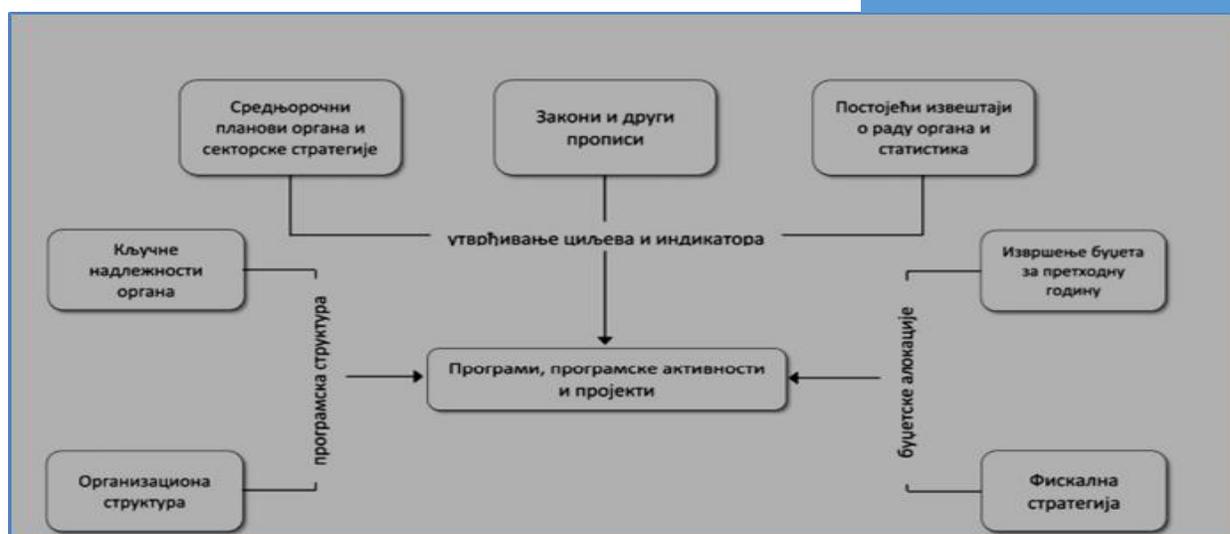
<sup>3</sup> [http://ifkj.mfin.gov.rs/user\\_data/posts/Gradjanski%20vodici%20kroz%20budzet%20Republike%20Srbije%20za%202018.%20godinu.pdf](http://ifkj.mfin.gov.rs/user_data/posts/Gradjanski%20vodici%20kroz%20budzet%20Republike%20Srbije%20za%202018.%20godinu.pdf)

## Progress achieved in 2019

Further harmonisation of budget beneficiaries' programme budget structures with the Guidance on the programme budget drafting issued by the Ministry of Finance was continued. The Guidelines on the programme budget drafting were enhanced in the part relating to the preparation of the programme structure of local government units. Likewise, technical specification for the development of modules on the programme performance monitoring and reporting was developed. The 2019 Citizen's Guide to the Budget of the Republic of Serbia was prepared and published on the official website of the Ministry of Finance<sup>4</sup>.

### *Performance indicator*

*Percentage of the Programme Performance Reports developed in line with the methodology, forwarded to the Ministry of Finance amounted to 74% in 2019, thus exceeding the set value of 72%.*

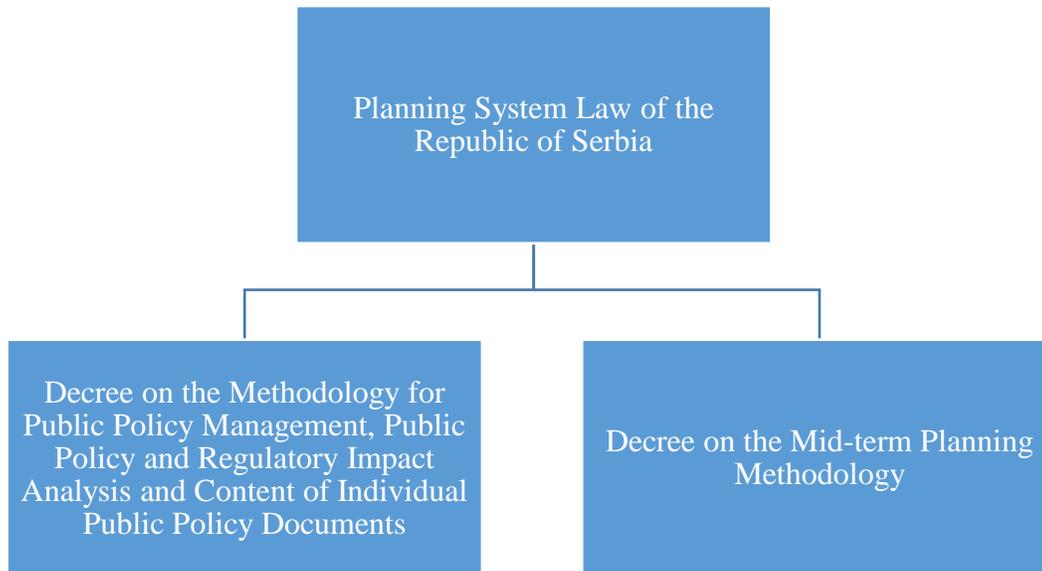


*Illustration 2: Establishing the budget programme structure of governmental authorities*

Provisions of the Planning System Law of the Republic of Serbia were additionally elaborated in the related bylaws (Decree on the Methodology for Public Policy Management, Public Policy and Regulatory Impact Analysis and Content of Individual Public Policy Documents and the Decree on the Methodology for Mid-term Planning ("Official Gazette of RS", No. 8/19), applicable at the level of public administration authorities as of 16 February 2019. The Decree on the Mid-term

<sup>4</sup> [https://www.mfin.gov.rs/UserFiles/File/dokumenti/2019/Gradjanski%20budzet%202019-05\\_03\\_2019.pdf](https://www.mfin.gov.rs/UserFiles/File/dokumenti/2019/Gradjanski%20budzet%202019-05_03_2019.pdf)

Planning Methodology regulates in more detail the content of mid-term plans, processes of their development and adoption, deadlines for their publication, implementation, implementation monitoring, evaluation and reporting on the mid-term plans' implementation.



*Illustration 3: Mid-term planning legislative framework*

Moreover, provisions on the mid-term plans' development will be additionally clarified and elaborated in the Mid-term Planning Manual, prepared within the 2015 IPA technical assistance project "Sector reform contract for public administration reform", expected to become effective soon.

Initial activities on piloting of the mid-term plan for the Ministry of Health were finalised. Harmonisation of the existing strategic framework with the provisions of the Planning System Law of the Republic of Serbia up to the level required for the implementation of the mid-term plan in the Ministry of Health has been successfully completed. Drafting of the mid-term plan for the Ministry of Health was launched on 20 September 2019, with the draft mid-term plan being compiled in December 2019. On 30 January 2019, the Ministry of Health adopted the mid-term Plan.

Piloting for the development of the mid-term Plan of the Government Public Policy Secretariat was initiated in September 2019. The draft mid-term plan of the Public Policy Secretariat was prepared in December 2019 and adopted on 31 January 2020.

Activities underlying drafting of the mid-term plan of the Ministry of Public Administration and Local Self-Government commenced in the fourth quarter of 2019. The draft mid-term plan of the

Ministry of Public Administration and Local Self-Government was prepared on 3 January 2020. Workshop for the finalisation of the mid-term plan was delivered on 15 January 2020, with the mid-term Plan of the Ministry of Public Administration and Local Self -Government being adopted on 31 January 2020.

In 2019, aimed at the public administration capacity building, Public Policy Secretariat in cooperation with the National Academy of Public Administration delivered a training dedicated to mid-term planning attended by 23 civil servants.

### **Financing of the measure**

- The 2020 Budget Law of the Republic of Serbia planned for funds amounting to RSD 4.9 million for development of the programme performance monitoring and reporting module;
- Drafting of the mid-term plans for the Ministry of Health, Public Policy Secretariat and the Ministry of Public Administration and Local Self -Government was supported by the funds of the complementary technical assistance 2015 IPA project “Sector Reform Contract for Public Administration Reform”.

### **Key challenges**

- Improvement of the IT system/ development of new programme budget performance monitoring and reporting modules;
- Capacity building of the Budget Sector and budget beneficiaries in the programme budgeting domain;
- Optimisation of the existing strategic framework represents a precondition for a more efficient drafting of the mid-term Plans of the mid- term planning reporting entities. To overcome this challenge, on 31 January 2019, Public Policy Secretariat forwarded a circular to public administration authorities on the most important duties and responsibilities of public administration authorities stemming from the Planning System Law of the Republic of Serbia;
- Insufficient human capacities in public administration authorities for development of mid-term plans.
- Due to the COVID-19 pandemic, all initial activities on the preparation of mid-term plans for Ministry of Interior, Ministry of Finance, Ministry of Culture and Information, Republic Geodetic Authority and National Employment Service have been suspended and are set to continue after discontinuation of the state of emergency.

### **Planned in the upcoming period**

- Completion of the programme performance monitoring and reporting module development;
- Continuous improvement of civil servants' knowledge in the area of programme budget preparation and programme performance monitoring and reporting;
- Full use of the Manual on mid-term Planning by the reporting entities of the mid-term planning in the procedure of mid-term plans' drafting;
- Entering mid-term plans in the Unified Information System (UIS) for planning, implementation monitoring and coordination of public policies;
- In 2020, depending on the progress made in optimisation of the strategic framework, five mid-term plans for five reporting entities of mid-term planning were planned to be prepared (the Ministry of Interior, the Ministry of Finance, the Ministry of Culture and Information, the Republic Geodetic Authority and the National Employment Service).

### **MEASURE-IMPROVING PUBLIC INVESTMENT PLANNING**

#### **Key results by the end of 2018**

- On 27 June 2017, Government adopted the Decree on the content, preparation method and assessment, as well as on monitoring the implementation and reporting on the capital projects' implementation (hereinafter referred to as: Decree on Capital Projects), which became effective as of 1 January 2018.
- The percentage of capital projects budget execution in 2017 amounted to 74.5%, whereas in 2018 it was cca. 85%;
- In March 2018, the Rulebook on the content, deadlines and procedure of submitting investment documentation for investment projects was passed.



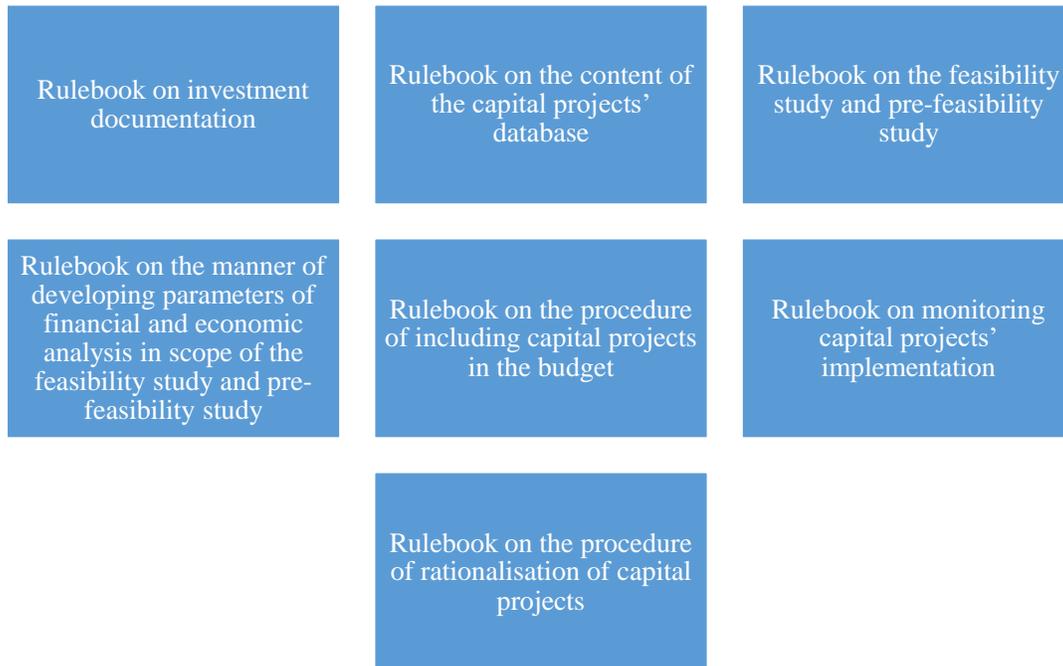
*Illustration 4: Capital budget share spent by the end of the budget year*

### **Progress achieved in 2019**

- On 25 April 2019, Government of the Republic of Serbia passed the Decision on the establishment of the Capital Investment Commission (“Official Gazette of RS”, No. 30) with the purpose of ranking capital investments according to the strategic relevance, degree of preparedness and predetermined feasibility, adoption of capital projects list, presents the plans for realization of the projects from the list to development partners, and with the purpose of , constant development of the capital investment management system, and coordination of the Working Group for the development of a single methodology for capital investment management;
- On 19 July 2019, the Decree on Capital Project Management (“Official Gazette of RS, No. 51) was adopted, followed by harmonisation of the new Decree and legislative framework with the new methodology in accordance with the Methodology for the Selection and Prioritization of Infrastructure Projects, established in 2014;
- In the last quarter of 2019 rulebooks and templates were passed in accordance with the applicable Decree on Capital Projects;
- In the second half of 2019, capacity building exercise was launched in the Sector for fiscal risks’ monitoring at the Ministry of Finance, to deal with capital project’ management and provide technical assistance to the Capital Investment Commission;
- The share of the budget execution of capital expenditures amounted to 86.34% in 2019.

### **Financing of the measure**

Costs of activities implemented under this measure include regular activities, i.e. salaries of employees at the Group for capital projects' evaluation and monitoring, Sector for fiscal risks' monitoring, MoF. Planned staff training (from July 2019 conclusive with December 2020) are being funded by the World Bank and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH- GIZ.



*Illustration 5: Rulebooks adopted in the fourth quarter of 2019 in accordance with the Decree on Capital Project Management*

### **Key challenges**

Establishment of the new public investment management system implies its gradual introduction. This includes strengthening and training of staff for its use within the Ministry of Finance, Ministry of European Integration and capital investment units in other line Ministries.

### **Planned in the coming period**

- In the first half of 2020, new basis will be set for the development of the capital project management information system (PIMIS), to be followed by its development. The activities planned are as follows: preparation of the implementation plan, preparation of project specification, preparation of documentation for software procurement and integration with pre-

existing systems such as ISDACON, the IT system for the coordination of international assistance;

- Further strengthening of organisational and human resources so as to allow the Group for evaluation and monitoring of capital projects within the Sector for monitoring of fiscal risks of the Ministry of Finance to reach its full potential, planned in the first quarter of 2020, as well as strengthening the Ministry of European Integration and capital investment units in other line Ministries, in accordance with the Decree on Capital Project Management;
- Strengthening cooperation and harmonisation of the budget process and process for monitoring and evaluation of capital projects- first quarter of 2020;
- Review of rulebooks and accompanying templates aimed at raising the efficiency of the entire process and bringing it closer to its users- third quarter of 2020;
- SECO/IMF/WB project to be launched in February 2020 is to establish the procedural framework.

## **PILLAR- EFFICIENT AND EFFECTIVE BUDGET EXECUTION**

### **MEASURE-ENHANCING REVENUE COLLECTION**

#### **Key results by the end of 2018**

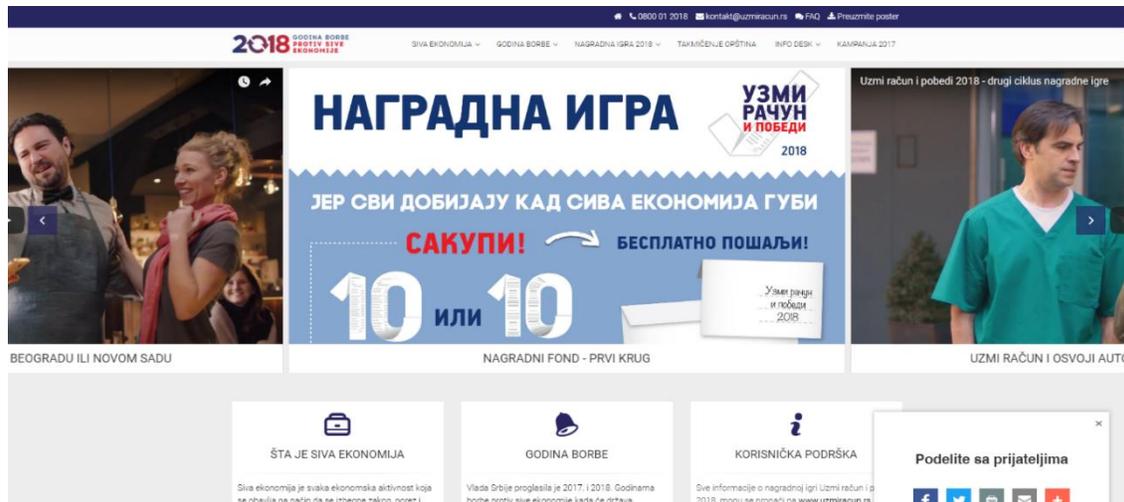
- The Transformation Committee adopted the Strategy of service delivery to taxpayers<sup>5</sup> in December 2016;
- In 2017, Tax Administration Transformation Programme was revised, and following the Conclusion of the Government of the Republic of Serbia of 5 December 2017, new Action Plan was adopted for the period 2018- 2023;
- **The 2017 Tax Regulations Compliance Plan was drafted and adopted.** For the first time, the drafting of the Plan was done using the OECD compliance risk management model;
- **Risk management system was improved.** In line with TADAT<sup>6</sup> recommendations, a structural risk assessment procedure and definition of voluntary risk priorities were introduced;
- After the success of the competition “Take the bill and win” in 2017, Serbian Government together with NALED organised a new round in 2018. The objective was to raise the awareness

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<sup>5</sup> <http://www.poreskauprava.gov.rs/o-nama/strategija-usluge.html>

<sup>6</sup> TADAT – Tax Administration diagnostic assessment tool

of the citizens and businesses on the importance of fighting shadow economy, stimulating cashless payments as an instrument of combating shadow economy, strengthening tax paying culture and motivating citizens and businesses to comply with regulations;



*Illustration 6: Source: <http://uzmiracun.rs/>*

- In 2018, at the “Your Taxpayer” counter, in total 922,792 services were rendered, mostly information regarding the implementation of regulations, assistance in completing tax returns, forms, requests, etc. clarifications concerning the decisions/ reprimands, issuing analytical cards of the public revenue accounts, receiving requests for issuing certificates on the taxes paid;
- **New system for regular and enforced collection and tax accounting was established.** The system is centralised and enables automated process of collection of tax liabilities, so now all activities related to collection and accounting are performed through an application, thus significantly accelerating the process, starting from the decision to issue a reprimand onwards;
- **CEPOP4 system for the ban on the change of registration data in the Business Registry Agency while tax control is ongoing has been fully established.** The system enables to, if tax control is initiated by the Control Sector or tax police, prohibit the change of registration data until the control is finalised;
- **Joint efforts were invested to enhance voluntary compliance with tax regulations through legislative amendments, capacity building and raising the level of understanding, risk management system was improved, and intensive development of an integrated IT system continued,** with the purpose of introducing electronic services for taxpayers;

- **Progress was made in relation to development of strategic framework for improved service delivery to taxpayers and overall organisational structure;**
- In 2018, supported by the project “Public Finance Reform-Financing 2030 Agenda” implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH- GIZ, the following trainings were delivered:
  1. “MSFI Implementation in Agricultural Accounting” for 189 attendees;
  2. “Basic accountancy training” for 92 attendees;
  3. “Didactic training” for 13 attendees;
  4. “Transfer prices” for the staff of the Center for Large Taxpayers (in Serbian: CVPO) for 33 attendees;
  5. “Investigation methods of tax crimes” for 51 tax police attendees;
- ERIAN<sup>7</sup> system for control of transit procedures of national (NT) and common transit (T1,T2,T), implemented through NCTS (New Computerised Transit System), was established as of February 2016;
- In 2017, planning documents for development of customs service by 2020 were adopted: The Customs Service Development Plan for the period 2017- 2020 and Action Plan implementing the RS Customs Service Development Plan;<sup>8</sup> Within the improvement of anti-corruption measures monitored under the Action Plan for negotiating Chapter 23- Judiciary and fundamental rights in addition to PFMRP, Customs Administration conducted risk analysis pertaining to corruption of the customs system legal framework<sup>9</sup> and continued strengthening its capacities via specialist training. A special set of trainings on the “Corruption investigation methods” was delivered for customs officers in 2016 and 2017, for 15 staff in the Customs Administration Department of Internal Affairs. In 2018, legal framework was passed defining competences of the Customs Administration Department of Internal Control<sup>10</sup>;

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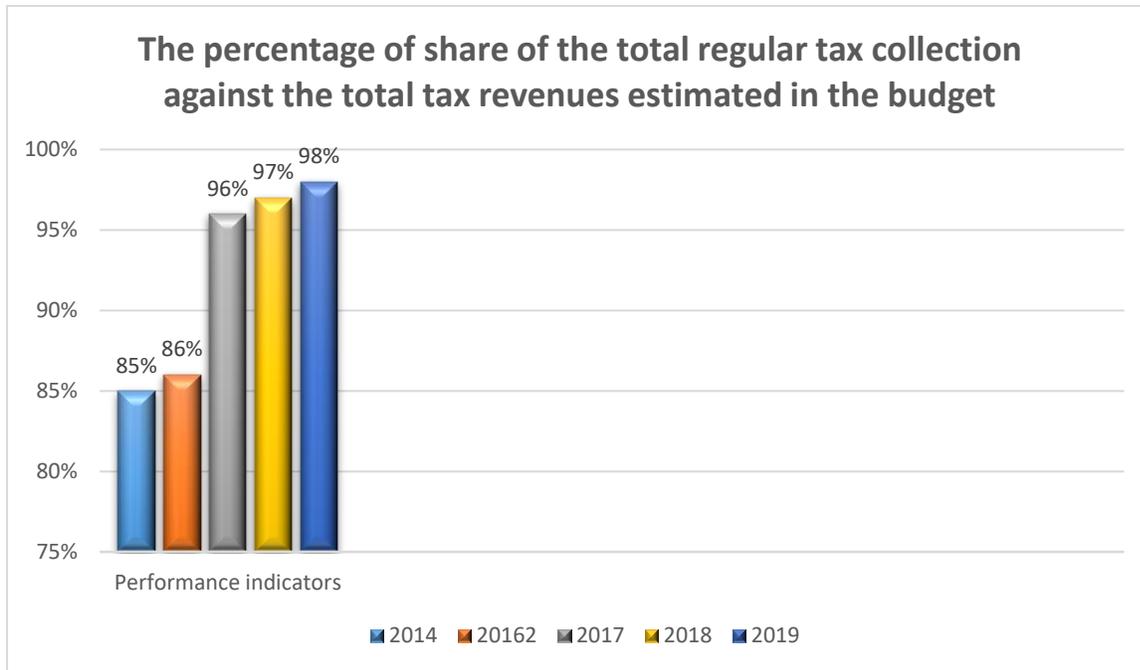
<sup>7</sup> ERIAN is an expert system- module with the basic task to ensure online evaluation of declarations processed in the declaration system in line with the risk model (profile) specification, developed by risk analysts in ERIAN central risk profile archive.

<sup>8</sup> <http://www.mfin.gov.rs/pages/article.php?id=13484>

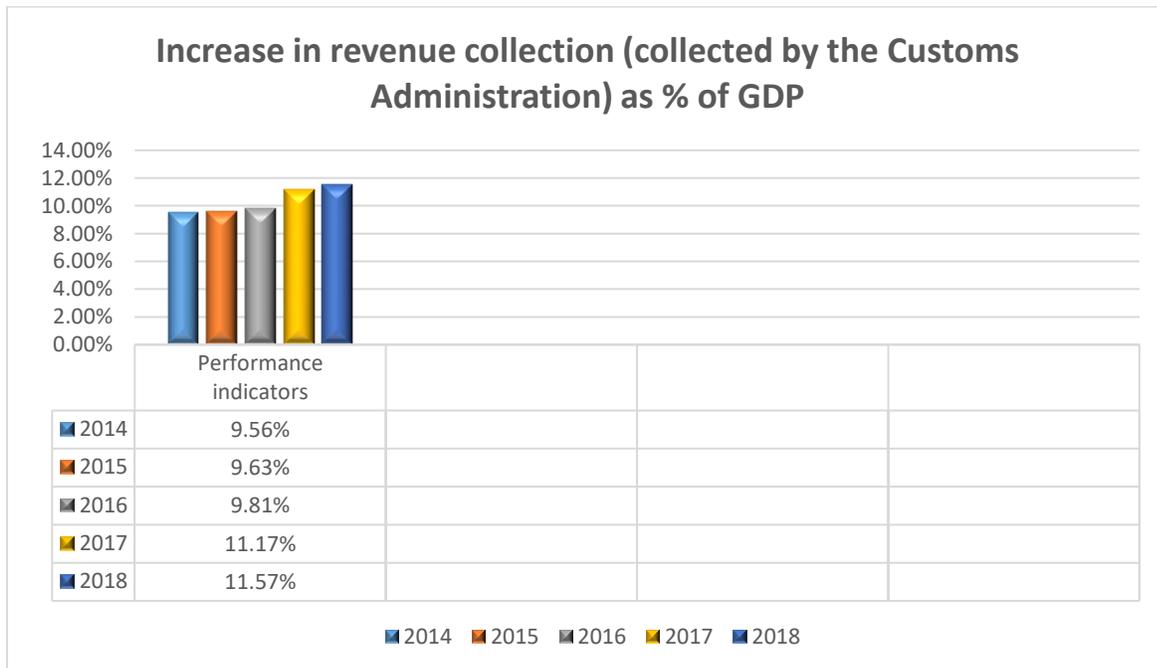
<sup>9</sup> Customs Administration conducted Risk Analysis pertaining to corruption of the customs system legal framework based on the Corruption risk analysis in regulations in the area of customs, implemented by the Anti-corruption Agency. The conclusion of the Risk Assessment refers to the need of extending powers of customs officers primarily by passing the Customs Service Law, but also through adoption of amendments and supplements to the Criminal Procedure Code.

<sup>10</sup> Law on Customs Service <https://www.mfin.gov.rs/propisi/zakon-o-carinskoj-sluzbi-95-2018/>

- In December 2017, the project “Creating the conditions for strengthening capacities of the Customs laboratory of Serbia” providing guidelines for full modernisation of the Customs laboratory was finalised. In 2018 10 Customs laboratory staff have successfully completed training for interpreting requirements of *SRPS ISO/IEC 17025:2006* standards;
- In the period 2016- 2018, capacity building of Customs Administration was carried out for participation in the preparation of the negotiating position for Chapter 33, through various workshops organised by the Ministry of Finance; participation in the *TAIEX* workshop “Establishing the EU’s traditional own resources system”, and through technical assistance of the GIZ project and Croatian Customs Administration to get familiarised with the experience of the Republic of Croatia in the process of introduction and harmonisation of the system following the accession to the European Union;
- At the end of 2018, with technical assistance of GIZ, a workshop was delivered for 16 customs officers relating to the first simulation of reporting on traditional own resources. After the workshop, Customs Administration successfully developed and forwarded the Annex to the Questionnaire regarding the assessment of the ability of the Republic of Serbia to meet administrative requirements in the area of the EU’s traditional own resources;
- In 2018, Technical Working Group for the implementation of obligations under Chapter 33 was established.



*Graph 2: The percentage of share of the total regular tax collection against the total tax revenues estimated in the budget*



*Graph 3: Increase in revenue collection (collected by the Customs Administration) as % of GDP*

**Progress achieved in 2019**

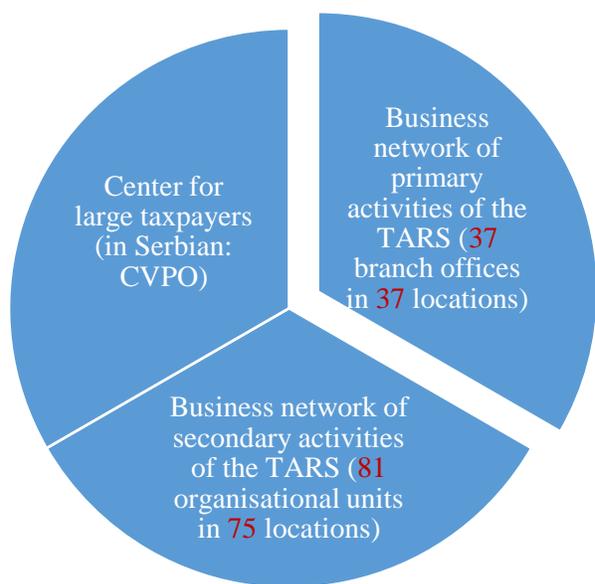
Tax Administration is fully committed to continuing implementation of the Tax Administration Transformation Programme 2015-2020, Action Plan for the Tax Administration Transformation Programme 2018-2023, and recommendations from the document Accelerating the Tax Administration Reform from October 2018, and identification of core activities of Tax Administration and separating side activities in separate areas of work.

Consulting firm Pricewaterhouse Coopers (PwC) was engaged to provide support to the Tax Administration regarding the implementation of activities pertaining to separation of core and side functions of Tax Administration (work processes analysis and requirements in terms of resources for each business flow, separation of appropriate organisational and management structure and ensuring guidelines for delivery of new arrangements). At the XV session of the Committee on the Transformation Programme Implementation held on 15 January 2019, final PwC report was adopted, and at the same time implementation plan for separation of functions and road map with specific activities and time frames was delivered.

The Act on Internal Organisation and Job Classification in the Ministry of Finance- Tax Administration 08 No: 112-01-1/374-1-2019 was adopted by the Decision of the Government of Serbia of 7 June 2019, thus creating the preconditions for re-allocation of staff in line with the new organisational network as of 1 July 2019. The same document envisages separate functioning of primary and secondary activities.

**Business network of core activities in the field comprises 37 branch offices in 37 locations, same as the Center for Large Taxpayers (in Serbian: CVPO) as a separate organisational unit.** In this way, in the first phase of reorganisation concentration of control and collection functions was undertaken in 37 locations, and the plan is for these functions to be located at 8 to 12 locations by 2023.

Business network of side activities comprised 81 organisational units in 75 locations, therefore 75 organisational units performing control tasks and 6 organisational units performing collection tasks.



*Illustration 7: First phase of the Tax Administration reorganisation*

The functions of human, material resources, ICT and services to taxpayers and tax accounting are carried out in a centralised manner with territorial distribution following the organisation of primary and secondary activities.

The project related to the development of a new staff data management software was completed, which in the first phase already implements the business process modules concerning the administration of staff data (organisational management, calls, personal records, attendance and leave records, career management, reports and

integration). Moreover, the training of staff for the application of new software was completed as well, with its full implementation before mid-2019 being one of the preconditions for the unobstructed functioning of the new organisational structure.

The precondition for automation of business processes is their re-engineering, as planned under the World Bank project “Modernisation of Tax Administration in the Republic of Serbia”. Under Component 3 of the project, the needs for ICT system modernisation were defined, same as automation of data exchange and data storage, case management and archiving as key facts for functioning of the reduced business network.

The redesign of business processes of core functions included operationalisation of an application as of 1 March 2019, enabling taxpayers to obtain: certificates on the paid liabilities in all public revenue payment accounts, certificates on the paid health insurance benefits, certificates on the paid value added tax and certificates on the paid taxes and benefits after deduction to BOP (consolidated collection).

The World Bank credit line was ratified by passing of the Law on Ratification of the Loan Agreement (Tax Administration Modernisation project) between the Republic of Serbia and

International Bank for Reconstruction and Development) passed by the National Assembly on 21 May 2019 (“Official Gazette of RS”- International treaties, no. 6 of 23 May 2019).

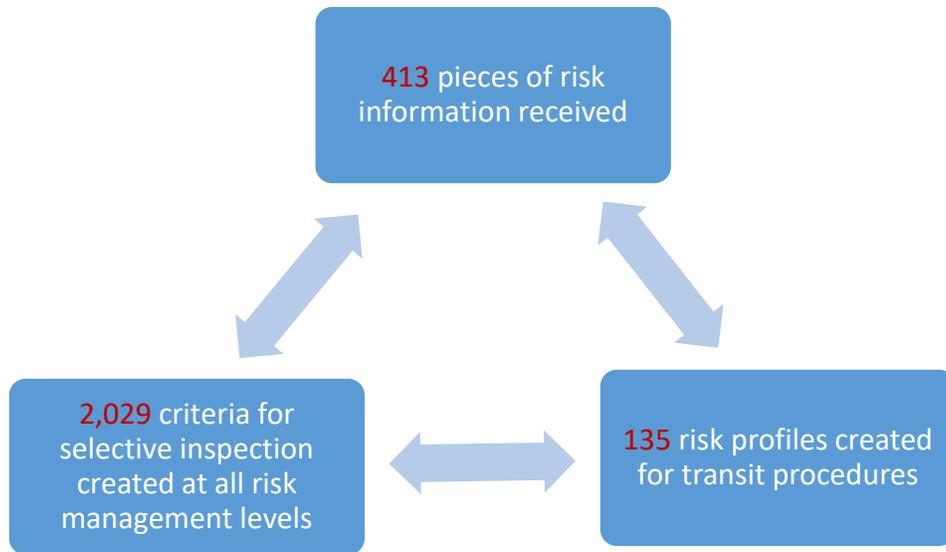
In 2019, a trend was continued pertaining to **increased collection of revenues from import duties, which compared to 2018 were higher by EUR 565.5 million.** Customs Administration continued strengthening their administrative and operational capacities, and also implementing activities relevant in the areas of establishing the EU’s Traditional Own Resources System, ERIAN risk analysis system implementation, Customs Laboratory modernisation and improving anti-corruption measures.

After developing the Questionnaire on the capacity of the Republic of Serbia to meet administrative requirements in the area of EU own resources in 2018, in 2019 Customs Administration, within their own administrative capacities, implemented simulation of EU accounting rules and reporting on a monthly level for EU’s Traditional Own Resources.

For the needs of preparing conditions for modernisation of the customs laboratory in September 2019, *TAIEX* expert mission “Improvement and development of the Serbian Customs laboratory” was delivered with the Customs laboratory of the Customs Administration of the Republic of Croatia. This mission was aimed at strengthening administrative capacities of the laboratory regarding the development of the laboratory management policy, quality system, procedures and operational methods in line with EU legislation, standard and best practice.

In scope of the GIZ project “Public Finance Reform- Financing 2030 Agenda” and in cooperation with the Academy of Criminalistic and Police Studies, in 2019 training was delivered for 9 customs officers to the topic of the methods in detecting and evidencing crimes and corruption crimes, within the Customs Administration capacity building, Internal Control Department, to improve anti-corruption measures. In addition, Customs Administration is implementing the World Customs Organisation pilot project to elaborate the analysis of the questionnaire on the 2019 strategic assessment of the corruption risk for the needs of identifying work posts at highest risk of corruption.

*In 2019, Customs Administration primary activities were focused on further improvement of IT support to selectivity of inspections in transit procedures; ongoing control of high-risk consignments was performed in import, export and transit for the entire customs area of the*



*Graph 4: IT support to inspection selectivity tasks in transit procedures*

Republic of Serbia. In 2019, 413 pieces of information on risk were received from other organisational units of the Customs Administration, other governmental authorities and via international exchange. Based on the abovementioned information and operational analyses, 2,029 criteria were established for selective inspection at all risk management levels and 135 risk profiles for transit procedures.

### **Financing of the measure**

Tax Administration financed the activities relevant for the Programme implementation from the budget and donor funds.

The relevant activities from the scope of the Customs Administration were financed through donor support and technical assistance via: 2013 IPA project “Creating conditions for capacity building of the laboratory of the Customs Administration of the Republic of Serbia” in the amount of EUR 225,000 (95% from the EU budget and 5% national co-funding), *TAIEX* and German Development

Cooperation project delivered via the project “Public Finance Reform-Financing 2030 Agenda” implemented by GIZ.

### **Key challenges**

Drafting of the document Tax Administration Transformation Programme for the period 2021-2025 and harmonisation of the Action Plan 2018-2023 with the new document. Monitoring and managing implementation of the Transformation Programme Action Plan within set time frames.

Delivery of the Customs Administration activities aimed at establishing the system of EU’s Traditional Own Resources and full implementation of the EU acquis in this area, same as activities pertaining to the design of three scenarios for modernisation of the Customs laboratory, training of customs officers at the Internal Control Department.

### **Planned in the upcoming period**

- In the forthcoming period, activities of the Tax Administration will be focused on further establishment of modern infrastructure and working environment within the organisation and improvement of the Tax Administration primary functions. In addition to this, work will be launched on enhancing secondary functions, like electronic services and development of services for taxpayers, improved risk management, control functions, billing, tax and legal affairs and tax police operation. **By the end of 2020 further strengthening of strategic management is planned to be undertaken, same as enhancement and simplification of core functions of Tax Administration, improvement of organisational structure and business processes leading towards a more efficient service delivery to taxpayers, same as efficiency in tax collection and reducing the burden for taxpayers.**
- In 2020, under the project “Public Finance Reform-Financing 2030 Agenda” of Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH- GIZ, Customs Administration plans to deliver a workshop to the topic “Consultancy for collection, booking and reporting on the traditional own resources- Preparation for the monitoring mission at the Customs Administration of the Republic of Serbia”. Moreover, through technical assistance of the European Commission and DG TAXUD, a working visit was planned and approved to the topic: “New instrumental techniques and procedures in managing samples in the Customs laboratory”.

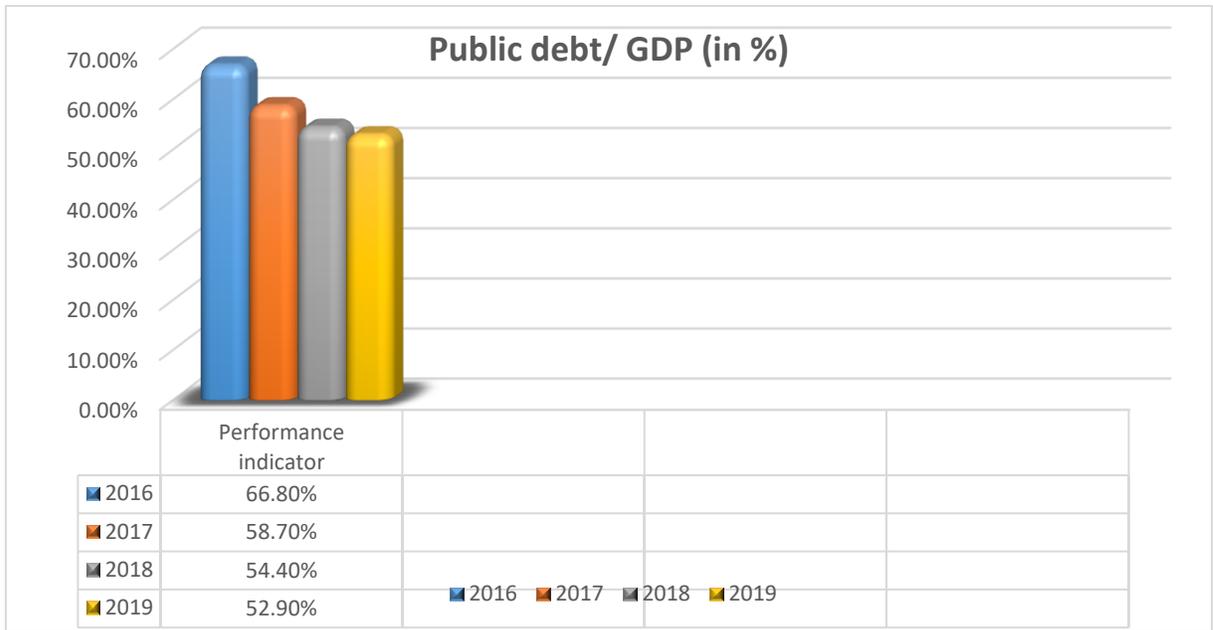
- In 2020, in cooperation with the Academy of Criminalistic and Police Studies and Judicial Academy, advanced specialist training was planned regarding the manner and procedure of conducting internal control for internal customs control.
- It is expected that by 2021, ERIAN system will be integrated with the input- output records of empty cargo motor vehicles, registered in the Customs Service Information System (in Serbian: ISCS).

Customs Administration activities planned within the technical assistance project “Support to the Ministry of Finance under the Sector Reform Contract” are expected to be implemented.

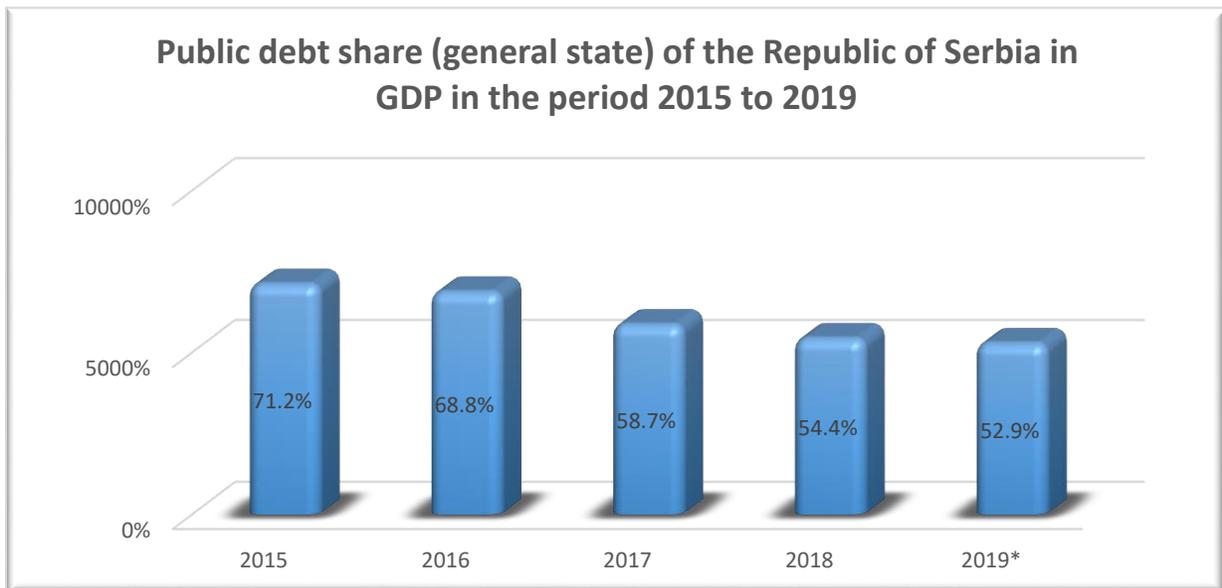
## MEASURE-CAPACITY BUILDING FOR PUBLIC DEBT MANAGEMENT

### **Key results by the end of 2018**

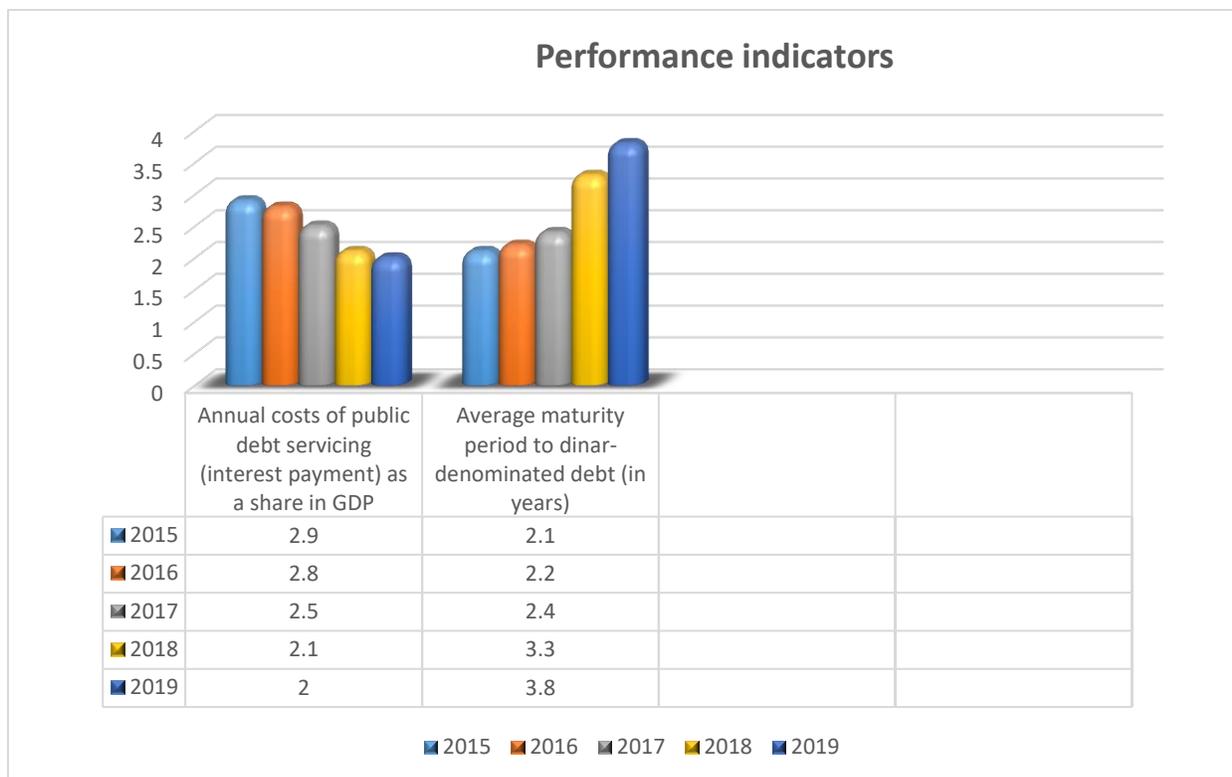
- In 2017, the public debt ratio against the GDP declined by cca. 10 percentage points.
- Capacities of the Public Debt Administration were enhanced by strengthening human capacities through learning based on the experiences of best practices and public debt management software;
- Major progress was achieved in increasing the average maturity of dinar-denominated sovereign securities and reduced financing costs, which decreased the refinancing risk exposure;
- Major progress was achieved in increasing the average maturity of dinar-denominated sovereign securities and reduced financing costs, which decreased the refinancing risk exposure;



*Graph 5: Public debt/ GDP (in %)*



*Graph 6: Public debt share (general state) of the Republic of Serbia in GDP in the period 2015- 2019*



*Graph 7: Annual costs of public debt servicing (interest payment) as a share in GDP and Average maturity period to dinar-denominated debt*

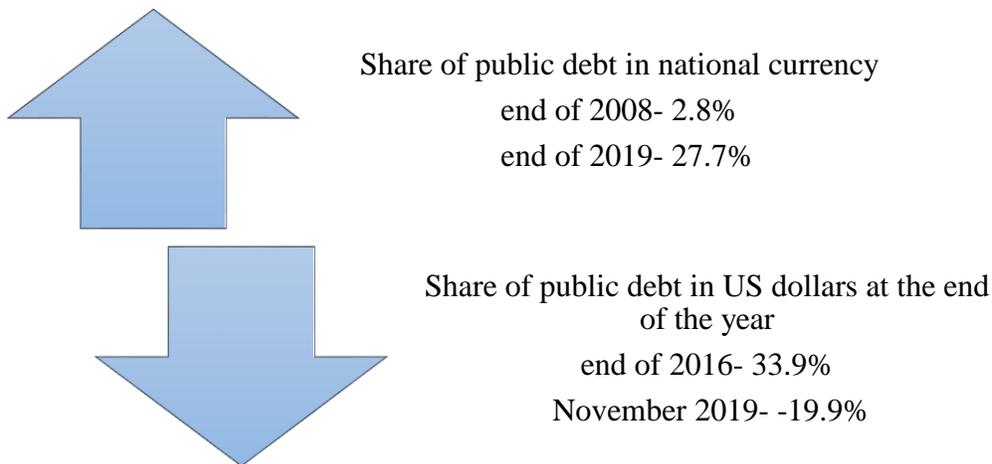
### **Progress achieved in 2019**

The Republic of Serbia public debt trajectory was reversed since 2016. The public debt decline trend in GDP was continued in 2019, and according to the preliminary data, the general state public debt share in GDP at the end of December 2019 amounted to 52.9%, which is by cca. 15.9 percentage points less compared to 2016.

In 2019, Republic of Serbia appeared twice in international financial market and confirmed lowest interest rates on the sovereign securities issued so far. In June 2019, after being absent from international capital market for years, Republic of Serbia has successfully issued first sovereign Euro-denominated bond with maturity of 10 years in the total amount of EUR 1.0 billion, at the lowest interest rate of 1.5% (coupon rate) and yield of 1.619% listed on the London Stock Exchange, whereby the demand reached the record-breaking EUR 6.4 billion. At the re-opening of the said Euro-bond issue in November, Republic of Serbia sold additional EUR 550 million in bonds with 1.25% yield, which is lower by even 37 basis points compared to the initial yield bond

rate issued in June this year. This is at the same time the lowest yield ever realised on the Republic of Serbia bonds issued in international financial market.

The public debt share in domestic currency in the total public debt of central government amounted to only 2.8% at the end of 2008, and by the end of 2019 it went up to 27.7%. The growth in dinar-denominated debt was primarily contributed by the issues of dinar-denominated sovereign securities in the domestic securities market. Likewise, owing primarily to transactions in 2019 when premature redemption of expensive Euro-denominated bonds issued in 2011 and 2013 in US dollars was undertaken, a decline in the USD debt occurred in the total public debt from 33.9% at the end of 2016, to 19.9% at the end of November 2019.



*Illustration 8: Share of public debt in national currency and Share of public debt in US dollars*

In 2019 cooperation was initiated with *Euroclear* with the intention to facilitate foreign investors' access to domestic securities market. This will lead to further decline in the Republic of Serbia borrowing costs due to the extended investor base brought about by the removal of existing barriers to accessing the market and reduced costs incurred by investors when accessing the market.

Passing of the Decree on general conditions for operations with financial derivatives in 2019 created conditions for the control of risk related to contractual obligations in currencies and interest rates, fluctuations of which imply higher risk primarily concerning the public debt servicing costs, but on the public debt level as well.

### **Financing of the measure**

In total USD 300,000.00 were invested in the Public Debt Administration capacity building. Additional USD 125,000.00 are needed to successfully implement all activities envisaged under this measure by the end of 2020. Most of the funds come from the Swedish International Development Agency (*SIDA*), implemented by UNDP. The funds needed for further steps need to be allocated from the state budget, EU support and other bilateral donors.

### **Key challenges**

Securing funds for implementation of all activities envisaged under the Action Plan;

Global risks related to financial market, although out of direct control of the Public Debt Administration or Serbian Government, they can still affect the ability to reach the planned objectives.

### **Planned in the upcoming period**

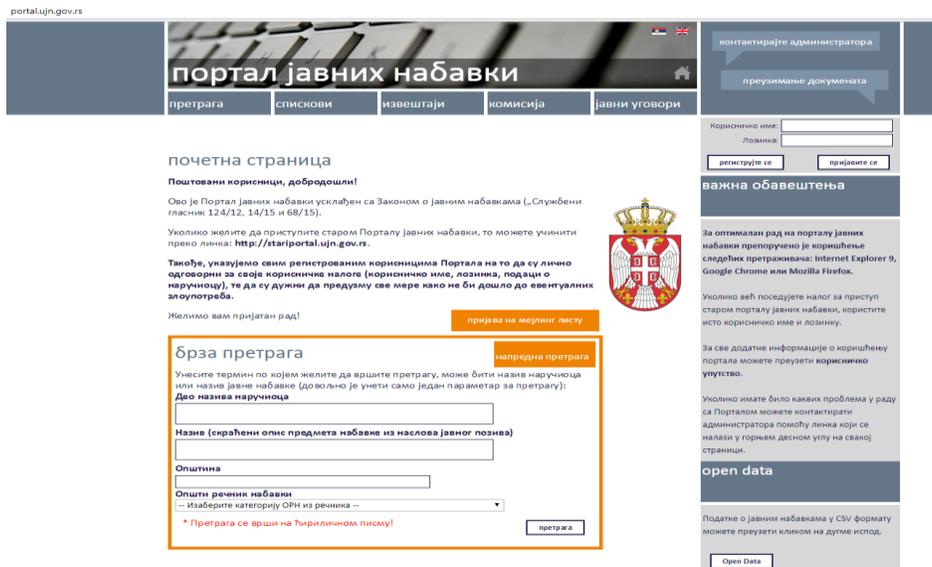
- Further activities will be undertaken so as to continue development of the methodology for delivery of the public debt sustainability analyses, aiming for it to be finalised by 2020/2022 via the IT system upgrade;
- Additional activities regarding the drafting regulations and related acts defining introduction of the primary dealer system in the securities market in constant cooperation with the IMF, to achieve greatest possible effects on the securities market development with reduced risk.

## **MEASURE-ENHANCING PUBLIC PROCUREMENT LAWS, REGULATIONS AND PROCEDURES**

### **Key results by the end of 2018**

- Transparency in public procurement planning was increased following the legislative framework amendments in 2015, by introducing the obligation of contracting authorities to publish public procurement plans on the Public Procurement Portal;
- Partial harmonisation of national legislation with the relevant EU directives finalised;
- Progress was achieved in improved capacities of entities for the purpose of more efficient implementation of public procurement procedures;
- Target value of 2,300 certified public procurement officers was reached;

- The number of discontinued procedures was reduced from 13% in 2014 to 10% in 2017, whereas in 2018 it amounted to 9%.
- In the period between 2014 and 2018, average duration of an open public procurement procedure was significantly shortened, from 77 days in 2014, to 65 days in 2018. The average duration of the public procurement procedure of small value was 33 days in 2018, which is shorter than in 2014 when it lasted 37 days<sup>11</sup>.



*Illustration 9: Official page of the Public Procurement Portal*

## Progress achieved in 2019

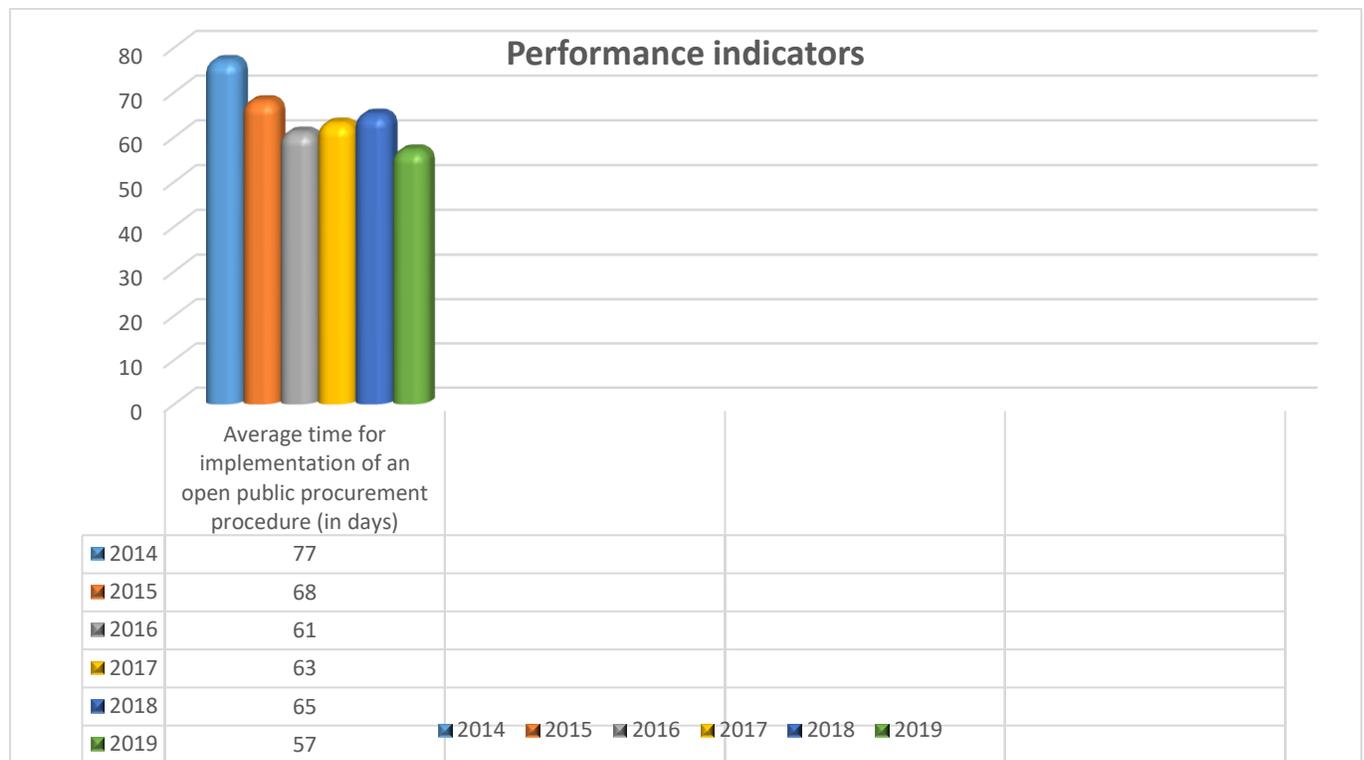
In 2019, the activity “Implementation of the process of institutional strengthening of the Public Procurement Office to enhance its operational capacity” was completed, following the adoption of the Rulebook on internal organisation and job classification No: 110-00-5/2019-1 of 20 March 2019 approved by the Government on 28 March 2019, thus increasing the number of systematised executives at the Public Procurement Office to 38, with functional organisation of core and specialised internal units within the Public Procurement Office. Following the adoption of the aforementioned Rulebook, strengthening of the Office in terms of staff was continued through a public call for 7 job vacancies.

<sup>11</sup>The average duration of the public procurement procedure is calculated from the day the call was published on the Portal until the day when the contract is concluded.

At the proposal of the Public Procurement Office, in November 2019 Government of the Republic of Serbia **adopted the Public Procurement Development Programme** for the period 2019-2023 setting forth public policy in the area of public procurement over the next 5-year period. This programme comprises four specific objectives and one overall goal “Further development of a modern and efficient public procurement system”. Guidelines for the green procurement improvement are completed and published on the website of the [Public Procurement Office](#).

Moreover, with the support of the 2013 IPA project “Support to further improvement of the public procurement system in the Republic of Serbia”, implemented by GIZ, framework agreements are in the process of being developed, with the time frame for their implementation being postponed in conformity with the adoption of the new Law on Public Procurement in December 2019.

One of the important performances of public procurement is the indicator of the procedure duration (calculated from the day of publishing the call on the Portal to the day the contract is concluded). Concerning this indicator for procurements implemented via an open procedure, i in 2019 it amounted to 62 days, whereas duration of the public procurement procedure of small value was 30 days.



*Graph 8: Average time for implementation of an open public procurement procedure (in days)*

As planned, further harmonisation with the European Union directives was performed through **adoption of the Public Procurement Law (“Official Gazette of RS”, No. 91/19) on 24 December 2019**. The new Public Procurement Law entered into force on 1 January 2020, and to become effective on 1 July 2020. Development of the new Public Procurement portal is under way in line with the new Law on Public Procurement. New Public Procurement Portal will be fully established by the onset of new legislative framework application, which will contribute to improved transparency of public procurement.

### **Financing of the measure**

In total, RSD 40.7 million were planned to be invested in implementation of activities under Measure 10. defined in the Public Financial Management Programme 2016-2020. For implementation of this measure, but also activities under the Measure 2.3 defined under the revised Public Financial Management Programme 2016- 2020 for the period from July 2019 to December 2020, the funds have been partially secured from the budget of the Republic of Serbia, and partially through 2013 IPA project “Support to further strengthening of the public procurement system in the Republic of Serbia“. Value of the project launched in July 2017 and extended in December 2019, amounts to EUR 2,622,330.00 in total.

### **Key challenges**

- Further prevention of corruption in the public procurement procedures;
- Improving the public procurement system in terms of increased number of electronic public procurements, green public procurement and innovation;
- Capacity building of all participants in the public procurement procedures (contracting authorities and bidders) in the sense of implementation of new legislative framework and new electronic platform;
- Establishing and successful operation of the new electronic platform.

### **Planned in the upcoming period**

- Passing the bylaws originating from the new Public Procurement Law;
- Developing and publishing practical/ supporting tools necessary for implementation of the new legislative framework (guidelines, instructions, model tender documents, etc.).

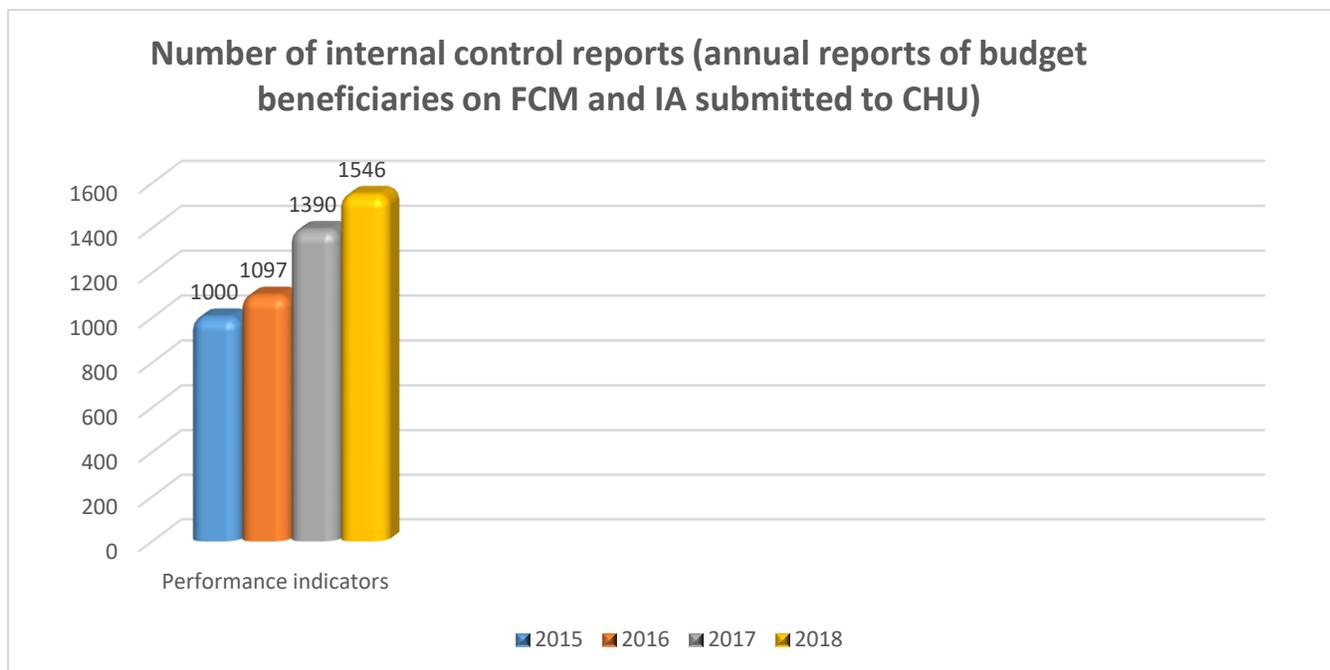
- Organising training for contracting authorities and bidders regarding the implementation of new legislative framework and new Public Procurement Portal;
- Establishing new Public Procurement Portal aligned with the new Public Procurement Law;
- Capacity building of the Public Procurement Office via new hiring.

## **PILLAR- EFFECTIVE FINANCIAL CONTROL**

### **MEASURE- IMPROVING STRATEGIC AND LEGISLATIVE FRAMEWORKS FOR IMPLEMENTATION OF PUBLIC INTERNAL FINANCIAL CONTROL**

#### **Key results by the end of 2018**

- In May 2017 the Strategy for Development of Public Internal Financial Control in the Republic of Serbia for the period 2017-2020 (hereinafter referred to as: PIFC Strategy), with the implementing Action Plan for the period 2017-2018 was adopted.
- At the end of 2017, Gap Analysis was compiled containing the cutoff in the area of financial management and control (FMC) and internal audit in the public sector. It was carried out with the assistance of a twinning project and contains recommendations to overcome identified weaknesses and improve the PIFC system. The analysis was finalised at the beginning of 2018;
- At the end of 2017, e-learning platform was implemented, used for a better exchange of knowledge in the area of FMC and IA. The platform is being continuously updated by new content and enables users to learn using training materials involving both theoretical and practical parts. Training material in the area of financial management and control, all four modules, was uploaded, so now it is available to all interested parties;
- In December 2018, new job classification was adopted, which enabled capacity building, organisational structure improvement and modus operandi of the CHU;
- In 2018, the draft text of the Rulebook on continuous professional development of certified public sector internal auditors was prepared to a large extent.



*Graph 9: Number of internal control reports (annual reports of budget beneficiaries on FCM and IA submitted to CHU)*

### **Progress achieved in 2019**

The Financial Management and Control Manual was updated and published in February 2019. Main changes introduced concerned the introduction of a new COSO framework in 2013 and further improvement of FMC tools.

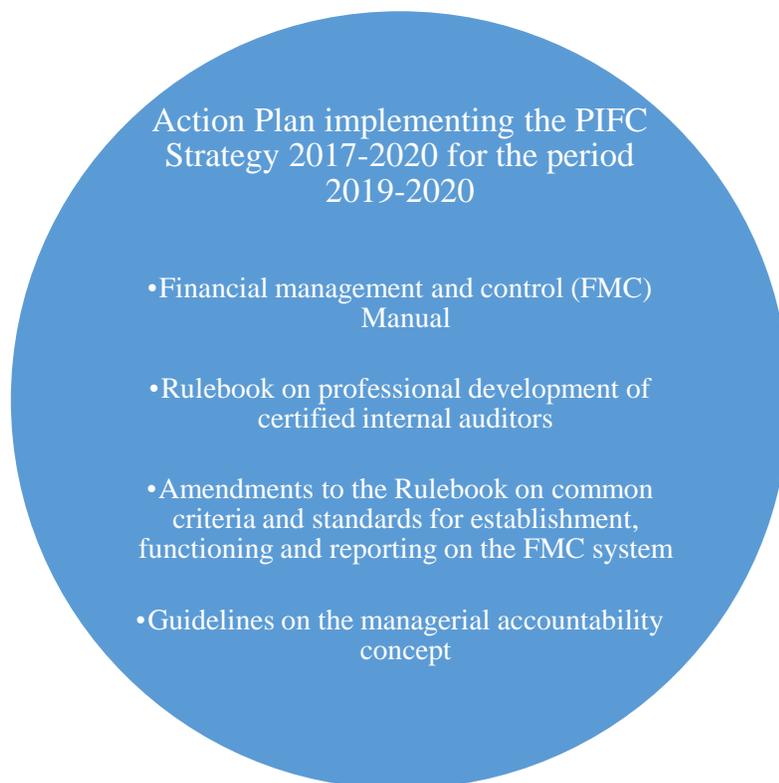
The Rulebook on professional development of certified public sector internal auditors was adopted and entered into force on 16 March 2019; it set forth the areas and forms, criteria for recognition, reporting and records on professional development.

On 4 April 2019, Government of the Republic of Serbia adopted the new Action Plan for the implementation of the PIFC Strategy 2017-2020, covering the period 2019-2020.

Amendments and supplements to the Rulebook on the common criteria and standards for establishment, functioning and reporting on the FMC in budget beneficiaries which entered into force on 18 December 2019 (hereinafter referred to as: the FMC Rulebook). The FMC Rulebook is harmonised with the amendments to international internal control standards (*INTOSAI*) including the 2013 *COSO* framework “Internal Control- Integrated Framework” and further elaborates on the principle of managerial accountability, irregularity management, delegating powers and responsibilities, and introduced an obligation of budget beneficiaries to sign a declaration on

internal control thus verifying the level of compliance of the financial management and control system with international internal control standards. Introduction of this obligation for the public funds managers entering into force on 1 January 2021, ensures legal basis for further strengthening of managerial accountability in practice and meeting set indicators in this area.

Activities under the pilot project have been delivered, at the beginning aimed at introduction and implementation of good practice in FMC in pilot institutions, so in 2019 the project focus was placed on the implementation of the key concept- managerial accountability. The project activities resulted in the guidelines in line with the pilot methodology and methodological framework in conformity with the examples of good practice to be used for managerial accountability. It was envisaged for these guidelines to pave the road for implementation of selected management elements in pilot institutions, since in scope of the implementation certain weaknesses were identified planned to be eliminated in the future planning documents.



Moreover, in the context of managerial accountability development, in 2019 intensive coordination and cooperation were established with key institutions and organisational units in this area: The

Ministry of Public Administration and Local Self-Government, Public Policy Secretariat and Budget Sector.

Following a consultative meeting in scope of the kick-off conference for the development of the new Public Administration Reform (PAR) Strategy 2020-2030 in September 2019, representatives of relevant institutions<sup>12</sup> have reached an agreement for further development of managerial accountability, which is crucial for PAR, to be led under “one roof“ of the Subgroup “Accountability” of the Working Group for the PAR Strategy development.

Working Group for coordination of PIFC tasks within the Public Administration reform Sector<sup>13</sup>, coordinating tasks pertaining to financial management and control and internal audit and monitoring the reporting process on the success in implementing the PIFC Strategy 2017-2020, became operational, with its first meeting being held in May 2019.

In 2019, within the twinning project “Support to further development of public internal financial control (PIFC)” (hereinafter referred to as: twinning project) the following trainings/workshops were delivered:

- Two one-day awareness raising workshops to the topic “Managerial accountability in French administration” held on 28 February and 1 March 2019 (17 members of top management from the MF, MPALSG, NES and PPS, same as operational staff (17 participants as well);
- Training on the *RACI* tool for representatives of pilot institutions organised on 28 June 2019 (7 participants). *RACI* (responsible/ accountable/ consulted/ informed) is a tool for a better overview, monitoring, delegating and establishing clear lines of accountability in an organisation, contained in the delegation guidelines;
- Workshop on strategic risks at the Ministry of Public Administration and Local Self-Government on 16 August 2019 (14 participants). Improved knowledge/ understanding of the Working group on FMC on strategic risk management and practical work on the format of strategic risk registry;
- Presentation on the performance dialogue at the French Ministry of Finance (11 participants);

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<sup>12</sup> The meeting was attended by representatives of the EU Delegation to Serbia, SIGMA / OECD, complementary technical assistance project for public administration reform, twinning project with France at the Ministry of Finance and national institutions: MPALSG, MF, General Secretariat, Republic Legislation Secretariat.

<sup>13</sup> Working Group for coordination of PIFC tasks includes representatives of the CHU, MPALFG, PPS, Budget Sector at the MF, Public Procurement Office, Ministry of Justice and Ministry of Economy.

- Training on the performance measuring system (15 participants);
- “Roles and responsibilities of different stakeholders involved in financial management and control”;

In 2019 and in cooperation with the twinning partner, CHU developed the following documents and methodological material to be published in the coming period and made available to budget beneficiaries for download on the website of the Ministry of Finance:

- Guidelines on the delegation system;
- Performance guidelines;
- FMC Guidelines in small public entities;
- Guidelines for financial units (effective and traceable audit trails for financial decisions and clear definition of roles, scope and responsibilities);
- Guidelines on clear reporting on irregularities and treatment of exceptions.

In 2019 a part of the planned internal audit quality review for the period 2018- -2019 was undertaken in five budget beneficiaries (Public Enterprise “Elektroprivreda Srbije“, “Srbija Voz“ a.d., Public Enterprise “Transnafta“, “Koridori Srbije“ d.o.o., “Uprava za agrarna plaćanja“- Agrarian Payment Agency), with the plan including an overview to be undertaken in five more beneficiaries where implementation is under way. The quality review recommendations are included in the consolidated annual PIFC report, with the consolidated report on the undertaken quality review being published on the website of the Ministry of Finance. The existing capacities of the CHU were continuously enhanced through participation of the staff in all relevant trainings organised by the project partners, but also through participation in all regional and international conferences (RESPA conference in Skopje- Republic of North Macedonia, *WBPem-Pal* conference in Sochi- Russian Federation and Skopje, Republic North Macedonia, etc.).

Test phase of the PIFC software, with cca. 200 budget beneficiaries, was implemented within the set timeframe. On that occasion, certain technical and functional shortcomings were identified, which were rectified in 2019 by additional engagement of IT company “Informatika A.D.”. Another test verification is under way, and the software is expected to be fully functional in the second half of February 2020.

Besides the above, in cooperation with SIGMA consultants, analytical approach was improved, same as the content and form of the 2019 Consolidated Annual Report on the Status of the Internal

Financial Control System (hereinafter referred to as: Consolidated Annual Report) especially in terms of structure, statistics and analyses undertaken. Recommendations issued were more of systemic nature and less focused on the CHU. Separate chapters were drafted on the SAI and budget inspection perspectives. The focus is also being placed on the monitoring of recommendations issued in the Annual EC Progress Report, identified systemic weaknesses and recommendations for the PIFC improvement issued by the CHU, results achieved through the delivery of the PIFC Strategy objectives, and in the forthcoming period, special attention will be paid on the results of the internal audit and internal control quality review. Government adopted the 2018 Consolidated Annual Report on 5 September 2019. CHU will continue improving the reporting system with the support of SIGMA.

E-learning platform used for a better exchange of knowledge in the FMC and IA area was also upgraded in 2018 by new content, and in cooperation with its project partners CHU is preparing uploading new interactive learning material in line with the distance learning best practice.

The process of transferring FMC and IA trainings to National Academy of Public Administration initiated by the CHU, still requires implementation of normative and organisational and technical preliminary activities. The CHU and twinning partner, in cooperation with the NAPA, are preparing uploading test education material on the NAPA website. The process of dislocation of trainings is still ongoing.

### **Financing of the measure**

Activities under this measure were supported, apart from regular budget funds, through different donor projects: IPA twinning project “Support to further development of public internal financial control (*PIFC*)” with France funded by the EU, GIZ, UNDP project “Improving Public Finance Management” funded by *SDC*, RELOF<sup>14</sup> project funded by *SECO*.

### **Key challenges**

- Overall strengthening of the CHU as a driver of change needs to be generally recognised by the top management;
- Awareness raising via: Enhanced activities on the official website, distribution of promotional material, financial management and control (FMC) tailor-made training for

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<sup>14</sup> Reform of local finance in Serbia

budget beneficiaries at central, but also local government level, organisation and participation in conferences;

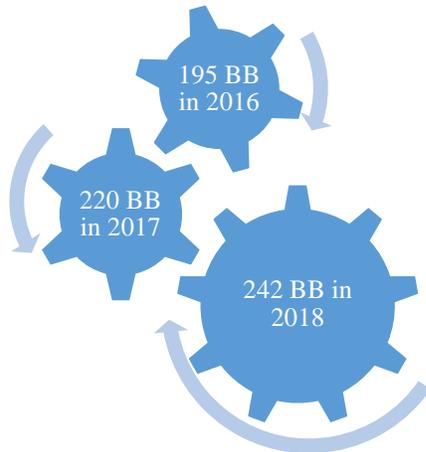
- In the area of managerial accountability, a constant challenge is reflected in the fact that regulations governing this area are often out of the CHU scope of competence. Due to this, CHU is investing considerable efforts to ensure successful coordination with institutions and units crucial for setting regulations in this area (MPALSG, PPS and MF Budget Sector), and actively participates in drafting of the future strategic documents focused on the public administration reform.

### **Planned in the upcoming period**

- Drafting new PIFC public policy document for the period beyond 2020;
- Further coordination of all activity implementers in the area of managerial accountability;
- Finalisation of the pilot exercise under the twinning project with a special focus on managerial accountability;
- Preparation of material and methodological guidelines in the area of managerial accountability;
- Identifying weaknesses of regulations and practice in place in the area of managerial accountability;
- Continuous upgrading and updating of the existing methodological manuals and guidelines in line with best international practice;
- Improvement of the internal auditors certification system;
- Transferring the training delivery function from the CHU to the National Academy of Public Administration;
- Further content improvement of the Consolidated Annual Report on the State of Play in the Public Internal Financial Control System in the Republic of Serbia;
- Regulating internal audit quality assessment in budget beneficiaries in a bylaw;
- Launching the first cycle of software application for the purpose of submitting templates/ reports of budget beneficiaries in scope of the Consolidated Annual Report on the State of Play in the PIFC System in the Republic of Serbia (I-II quarter 2020);
- CHU capacity building.

## MEASURE-SUPPORT TO INTRODUCTION AND FURTHER DEVELOPMENT OF INTERNAL AUDIT FUNCTION

### Key results by the end of 2018



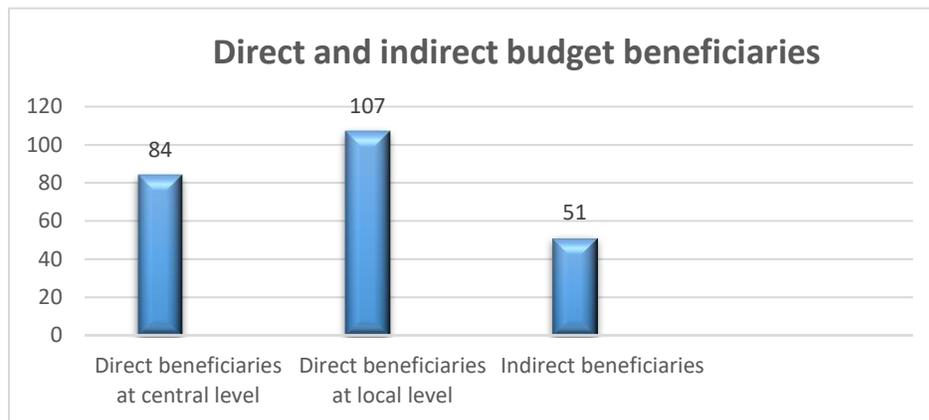
*Illustration 10: Illustrated number of the budget beneficiaries' number with the established internal audit function*

- According to the official data from the 2019 Consolidated Report, 242 budget beneficiaries (BB) have established the internal audit function in accordance with legal requirements ( 195 BB in 2016, 220 BB in 2017 and 242 BB in 2018 thus representing a growth of 10% in 2018 compared to 2017, with additional 46 BB in the process establishment). Out of these 242 BB, 84 are direct beneficiaries at central level, 107 are direct beneficiaries at local level and 51 are indirect beneficiaries). In total for all budget beneficiaries, 591 work positions were catalogued (increase of 13%), with 483 (increase of 9%) internal auditor

vacancies fulfilled, which shows a positive trend in the internal audit function development in the past period.

- Majority of central level institutions like the ministries, organisations of compulsory social insurance, offices and other direct beneficiaries at central level and public enterprises (PE) at central level have established the internal audit function.
- Direct budget beneficiaries at central level (ministries, administrations, judicial authorities, budget funds, directorates, offices, services, etc.), with minimum one active auditor cover approximately **83% of total expenditures and outlays in the 2018 budget of the Republic of Serbia<sup>15</sup>**.

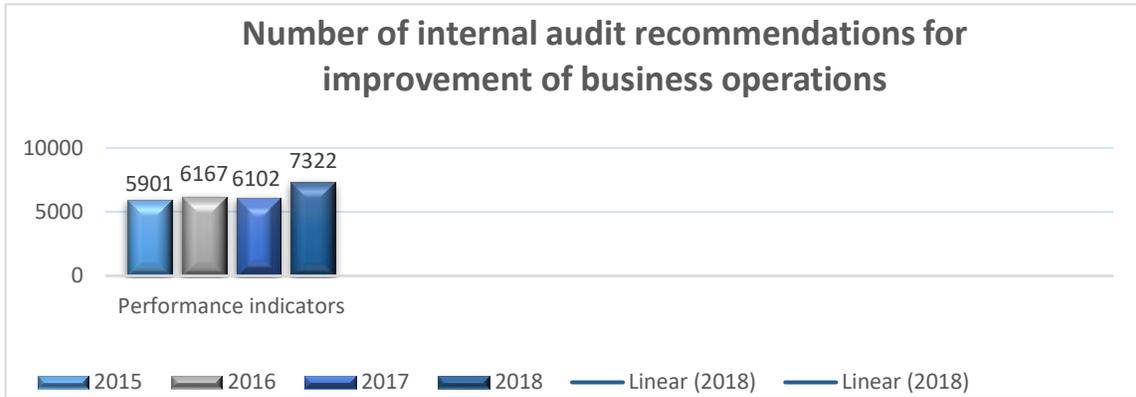
<sup>15</sup> KGI coverage percentage was calculated based on the data referred to in Article 8. 2018 Budget Law of the Republic of Serbia (“Official Gazette of RS”, No. 113/17).



*Graph 10: The number of direct and indirect budget beneficiaries*

- The planned internal audit quality assessment in budget beneficiaries for the period 2018-2019 was continued in five budget beneficiaries (Public Enterprise “Elektroprivreda Srbije“, “Srbija Voz“ a.d., Public Enterprise “Transnafta“, “Koridori Srbije“ d.o.o., “Uprava za agrarna plaćanja“- Agrarian Payment Agency), with the plan including the assessment to be undertaken in five more beneficiaries where implementation is under way or is yet to be initiated. However, the list of beneficiaries subject to assessment or those planned to be the subject of assessment is not yet finite. Recommendations are included in the Consolidated Annual Report PIFC Report, taking into account the SAI reports and recommendations on internal and financial management and control, with the previous quality assessment reports being published on the website of the Ministry of Finance.





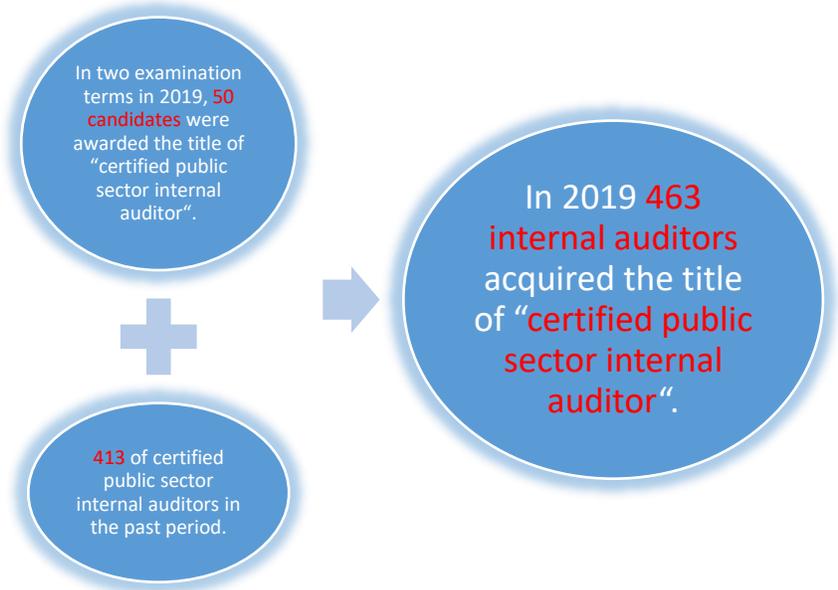
*Graph 11: Number of internal audit recommendations for improvement of business operations*

**Progress achieved in 2019**

The process of filling up internal auditor vacancies in budget beneficiaries continued in 2019, under regular monitoring of the Department-Central Harmonisation Unit (CHU).

- CHU delivered regular trainings for the BB staff to the topic of financial management and control for 142 trainees in the first half of the year, and 388 trainees in total for the entire year.
- In 2019, CHU opened 33 new cases for the delivery of hands-on training for internal audit in budget beneficiaries for candidates who are in the process of acquiring the “certified public sector internal auditor” title.
- In 2019, 95 staff members in total attended the theoretical part of the internal audit training.
- In two examination periods, the exam was passed by 50 candidates (36 in May exam period), and received the title of “certified public sector internal auditor”.

- According to the data presented in the 2018 Consolidated Annual Report on the State of Play in the PIFC system, in the Republic of Serbia there are 463 internal auditors in total who have acquired the title of an “certified public sector internal auditor”, of whom 346 working on the internal audit matters.



*Illustration 11: Certified public sector internal auditors*

- The draft guidelines for establishing the internal audit function in smaller budget beneficiaries were elaborated, regarding the organisation of joint internal audit units.

When it comes to internal audit, quality assessment is undertaken by the CHU. Quality assessment is in the scope of the newly established unit in scope of the Sector- CHU, i.e. Group for the Internal Audit Quality Assessment, and implies verification of fulfillment of the set requirements for

establishment of internal audit unit, audit scope, qualifications and training of internal auditors, functional and organisational independence of internal audit, internal audit charter and code of ethics, strategic and annual internal audit plans, implementation of internal audit operation methodology, internal audit risk management, internal quality control, needs for future



trainings and membership with professional associations. The Group for the Internal Audit Quality Assessment prepares the Rulebook on external evaluation of internal audit operation, same as methodology for additional two modalities of quality control: via peer review and internally by budget beneficiaries themselves.

UNDP provided support for activities funded by SDC and SECO, which included trainings, consultation, and development of material in this area. Additionally, internal audit at the local level is supported by the SECO-funded RELOF project, same as the IPA twinning project “Support to further development of public internal audit”.

Supported by the twinning project, in 2019 the following was completed:

- “Audit of IPA funds’, a two-day workshop held on 24 and 25 April 2019 (26 participants)
- Two e-learning video clips were developed to the topic “Reporting and Recommendations” and “General objectives of reporting on internal audit”. The purpose of these e-learning video clips was to support CHU in preparing the e-learning platform to enhance exchange of knowledge in the area of financial management and control and internal audit in line with the Action Plan implementing the PIFC Strategy, Measure 4.1.
- “E-learning Road Map”- a road map for further development of e-learning and transition from the existing module, namely classroom- based material, to e-learning modules, was completed. This approach was supported by the long-term strategic orientation recommended by the European Commission- for the transfer of trainings delivered by the CHU to the National Academy of Public Administration.
- IPA funds audit risk assessment model.
- Check list for systemic audit of IPA audit which will be a part of the Internal Audit Manual.

### **Financing of the measure**

Aside from the regular budget funds, activities under this measure are supported by IPA twinning project, UNDP project “Improving public finance management” funded by SDC and SECO, same as the RELOF project funded by SECO.

### **Key challenges**

- The number of public sector internal auditors in the RS is still insufficient for optimum coverage by the BB internal audit function.
- Certification scheme in place is demanding in terms of a large workload and lacking capacities of the CHU.

#### ***Key challenges***

*Insufficient number of public sector internal auditors in the RS for optimum coverage by the BB internal audit function.*

- Further improvement of the IPA audits' quality. CHU took over numerous activities like meetings and trainings together with the Office on the EU funds management system audit, Sector on the EU funds management and Department for contracting and financing of EU-funded programmes at the Ministry of Finance.

### **Planned in the coming period**

- Optimisation of the number of required auditors, enhanced quality of work and compliance with the internal audit standards through regulatory framework improvement.
- Improving certification system.
- Drafting regulations, methodology and coordination of external and internal internal audit quality assessments.
- Improving methodological and regulatory framework in the area of IPA audit in cooperation with IPA bodies.

## **MEASURE-IMPROVED IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL AND FURTHER DEVELOPMENT OF INTERNAL AUDIT FUNCTION IN LINE WITH INTERNATIONAL STANDARDS AND PRACTICES**

### **Key results in the previous period**

- The first two internal audit quality assessments in the RS were completed in two budget beneficiaries.
- Internal audit quality assessment was continued in budget beneficiaries.
- Draft guidelines on clear reporting on irregularities and treatment of exceptions were developed.
- The Consolidated Annual Report on the State of Play in PIFC in the RS was amended and improved.

### **Progress achieved in 2019**

CHU and twinning project have initiated first internal audit quality system assessment undertaken at the National Employment Service (NES) as one of the pilot institutions. This is a particularly important activity which has never been delivered in any institution in the RS. This activity will contribute to enhanced CHU roles and responsibilities, given that they will start reporting on the quality of the existing PMC systems, which is a major contribution to further strengthening of the

public management and control system in Serbia. This activity is in line with the EC 2019 Serbia Progress Report.

Planned on-site visits to the NES were delivered, with the final text of the report on the implemented PMC quality assessment under preparation, after that development of methodological material will be continued.

### **Second FMC system quality assessment was performed at the Commissioner for Information of Public Importance.**

Internal audit operation quality assessment was continued in budget beneficiaries by the Central Harmonisation Unit staff; this activity is now in the scope of the newly established internal organisational unit. Drafting of the Rulebook on external evaluation of the internal audit quality is under way.

Besides this, in cooperation with SIGMA consultants, analytical approach, content and form of the 2018 Consolidated Annual Report were significantly modified and enhanced in terms of structure, statistics and analyses performed, thus meeting the indicator planned until the third quarter of 2019. Recommendations issued were more of systemic nature and less focused on the CHU. Separate chapters were dedicated to the SAI perspective on internal financial control in public sector, SAI recommendations and position of the budget inspection. The focus is also being placed on the monitoring of recommendations issued in the Annual EC Progress Report, identified systemic weaknesses and recommendations for the PIFC improvement issued by the CHU, results achieved through the delivery of the PIFC Strategy objectives, and in the forthcoming period, special attention will be paid on the results of the internal audit and internal control quality review. On 5 September 2019, Government adopted the report, which was thereafter together with recommendations forwarded to ministries for implementation. CHU will continue improving the reporting system with the support of SIGMA.

#### ***Key results***

*On 5 September 2019, Government adopted the report, which was thereafter together with recommendations forwarded to ministries for implementation, thus meeting the indicator planned by the third quarter of 2019.*

According to the new FMC Rulebook, the head of the budget beneficiary is responsible to establish a system for identification, recording and acting upon notifications on suspicion of irregularities within the organisation, same as reporting system, and with this, this area is normatively regulated. In cooperation with the twinning project, CHU developed draft guidelines on clear reporting on irregularities and treatment of exceptions, and final corrections are currently under way prior to planned adoption of the final version (first quarter of 2020), its translation to English and publishing the guidelines on the Ministry of Finance website.

### **Financing of the measure**

In addition to budget funds, this measure is supported by the aforementioned twinning project and GIZ.

### **Key challenges**

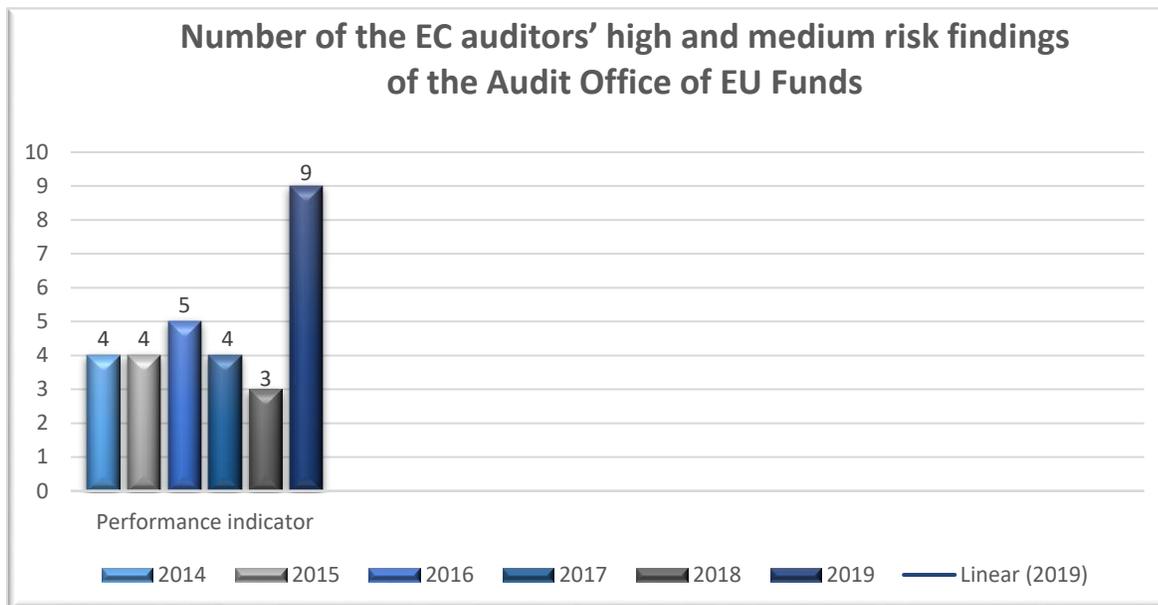
- Frequent institutional changes and fluctuation of heads of budget beneficiaries and FMC coordinators have diminished a potential improvement in the area of financial management and control.
- Poor information level in managers and staff on the FMC and IA systems.

### **Planned in the upcoming period**

- Continued IA function quality assessment and strengthening of the CHU expert and human capacities for quality assessment.
- Development and improvement of financial management and control quality assessment in budget beneficiaries.
- Normative regulation of internal audit quality assessment, enhancing methodology and coordination of internal audit quality control.
- Finalisation of the Guidelines on irregularity management.

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

The measure refers to the adoption of appropriate legal framework, functional review implementation aimed at enhancing organisational capacities of the Audit Office of EU funds (hereinafter referred to as: “Office“).<sup>16</sup>



*Graph 12: Number of the EC auditors' high and medium risk findings of the Audit Office of EU Funds<sup>17</sup>*

Indicator at the objective level “The number of EC findings against the number of audit recommendations” measures the increase in the number of audit findings, from envisaged six, to realised nine in 2019. The reasons are as follows: due to frequent fluctuation of R3 DG NEAR audit sector heads in 2019 and staff changes in the composition of DG NEAR audit- verification team, that carried out the said engagements. In addition to this, DG NEAR work methodology was modified in terms of monitoring the implementation of recommendations. These changes even led to deviations from international audit standards, so two findings and recommendations were added subsequently, which were not the subject of the previous audit. Such an approach resulted in the unexpected number of audit findings.

<sup>16</sup> The Office was established in 2011. (Link: <http://www.aa.gov.rs/doc/Uredba%20o%20osnivanju%20kancelarije.pdf>)

<sup>17</sup> Based on the latest data available: DG NEAR Report Ref. Ares (2019)4519382351808 - 0307/078/2019 and DG AGRI Ref.Ares(2018)1062069 - 26/02/2018

## **Key results by the end of 2018**

In the course of the reporting period, all three activities were implemented in line with the time frame set in the PFM RP, except for the adoption of a legal act for re-institutionalisation of the Office.

The draft legal framework for re-institutionalisation of the Office was developed in December 2017, but the final stage of adoption was postponed due to inexistence of institutional and economic justification.

At the beginning of 2016, functional review aimed at capacity building and enhancing functionality of the Office was performed by national authorities within the IPA structure<sup>18</sup>, in line with the IPA II Framework Agreement, and in line with the workload analysis, and it was concluded prior to the deadline set in the PFM Reform Programme (first quarter of 2017). Recommendations of this functional review serves as a basis for the development of legal acts for re-institutionalisation of the Office, whereas the workload analysis ensured the basis to increase the planned number of staff in accordance with the IPA II regulations.

## **Progress achieved in 2019**

Organisational, technical and administrative capacities of the Office were enhanced in line with the requirements of the European Commission, thus improving functionality for implementation of audit activities. In line with the recommendations of the latest workload analysis, the lacking number of qualified civil servants need to be urgently hired and trained, for the purpose of development of the Office administrative capacities.

Currently, Office has 27 staff members, of whom 22 employed based on the service contract, and 5 staff members employed based on the employment contract. There are ten certified auditors. The

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<sup>18</sup> In January 2016, NAO, director of the Audit Office of EU Funds and NIPAK published the functional review of the Audit Office of EU Funds.

target value of full capacity of the Office has not yet been achieved, having in mind that, aiming at preserving and improving its administrative capacities, on 10 April 2019 the Office adopted new Rulebook on internal organisation and job classification, envisaging 33 staff members in total, namely 10 work posts of senior advisors with 15 executives, of whom 13 certified auditors were

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*2019 EC Serbia Progress Report states as follows: "In terms of financial management, control and audit, national systems have been further developed so as to be in compliance with the requirements of decentralised IPA funds management. Capacities of the Audit Authority were additionally strengthened."*

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envisaged.

The Audit Office of EU Funds implemented the project “Introducing the *AuditDoc* software for audit and document management”. The purpose of the project is automation, accelerating and facilitating the process of audit planning, implementation and reporting on the EU funds management system, same as rounding-up the recommendations’ monitoring system. Secondary data storage center was also established at prescribed distance.



In Valona, Albania, on 3 and 4 July 2019, annual seminar of audit authorities for Instrument for Pre-Accession (IPA) programmes to the topic of strengthening cooperation between the audit authorities in IPA countries.



For the purpose of the Office capacity building, and in cooperation with the GIZ project “Support to Public Administration Reform” between 23 and 26 September 2019 “Soft skills for auditors” training was organised in Vršac.

The training encompassed areas like non-verbal communication- interpretation of body language and facial skills in the relationship auditor- client, business communication manipulation, safeguarding critical thinking and professional integrity of auditors, internal communication and stimulating positive environment and effective running of meetings.



From 22 to 24 October 2019, seminar of audit authorities for the Instrument for Pre-accession Assistance (IPA) was held in Zagreb, with the main topic being the audit of works contracts, with the on-site visit to two construction sites to check the works completion levels.

Given that the planned activity regarding the adoption of the legal act on reinstationalisation of the Office was not delivered in 2018, this measure was renamed, so as to now read as follows: “Strengthening legal framework as a basis for enhancing institutional and administrative capacities of the Audit Office of EU Funds aimed to improve the audit efficiency of the EU funds internal control system”. The following two activities were set under this measure:

1. Strengthening legal framework as a basis for enhancing institutional and administrative capacities of the Office- adoption and implementation of new legal basis (by the end of 2021, in line with the Action Plan to meet the requirements in the EU cohesion policy area- Chapter 22- Regional policy and coordination of structural instruments).
2. Developing staff retention policy to ensure adequate and stable administrative capacities of the Office.

### **Financing of the measure**

So far, for the delivery of this measure, the Office planned and spent additional EUR 7,500.00 from the state budget for hiring of new staff. For further administrative capacity building, the Office implemented the project “Introducing the *AuditDoc* software for audit and document management”. The unallocated 2013 IPA funds amounting to EUR 220,000.00 were spent for this project. The European Union Delegation to the Republic of Serbia implemented the tender, and the Office implemented the project. Financial plan of the Office envisages the funds for maintenance

and upgrade of the *AuditDoc* software for audit and document management in the amount of RSD 3,850,000.00.

The Office is participating in the IPA project “Development of System for Management Cohesion Policy” launched on 12 September 2019, to be implemented in the next three years by GIZ in consortium with partners. The project is aimed at capacity building of institutions in the Republic of Serbia at national and subnational levels for efficient preparation, implementation, monitoring and evaluation of programmes and projects financed from EU Structural Funds and Cohesion Fund. The Office is participating in the project with its training plan for the staff training, with delivery of trainings being performed with the *TAIEX support*.

To create technical conditions for hiring of new staff and development of administrative capacities of the Office, the Office Financial Plan envisages funds for current repairs and building maintenance amounting to RSD 5,760,000.00.

### **Key challenges**

- Delay in the adoption of the proposed legislative framework for reinstitutionalisation of the Office.
- Lack of adequate staff retention policy, having in mind the need to prevent staff drain, through systemic reforms in human resources management.
- Continuous and considerable fluctuation of trained staff, requiring hiring new staff as their replacement, and their intensive training.

### **Planned in the upcoming period**

- Additional administrative capacity building of the Office so as to issue relevant recommendations for IPA structure for enhancing decentralised/ indirect management of pre-accession EU funds, same as implementation of programmes and projects financed from IPA funds.
- Adoption and implementation of the reinstitutionalisation legislative framework, in line with the EC recommendations and ensuring basis for further strengthening of the Office administrative capacities. Proponent of the legislative framework is the Ministry of European Integration, with adoption be expected by the end of 2021.

- Development of a comprehensive staff retention policy within IPA structure, in accordance with the measures to be passed at national level for public administration authorities and Government services performing public administration tasks in line with their respective scope, in relation to pre-accession EU funds management.
- Drafting of three-year audit strategies in line with Annex E, of the Law on Ratification of the Framework Agreement between the Republic of Serbia and the European Commission on the arrangements for implementation of the Union financial assistance to the Republic of Serbia, under the Instrument for Pre-accession Assistance (IPA II) and their annual update.
- Drafting the annual audit plan, in line with the Law on Ratification of the Framework Agreement between the Republic of Serbia and the European Commission on the arrangements for implementation of the Union financial assistance to the Republic of Serbia, under the Instrument for Pre-accession Assistance (IPA II) and its implementation.
- Further continuous improvement of audit procedure, human resources management and strengthening the influence of the Office via enhancing systemic monitoring of recommendations' implementation and communication.
- As needed, existing rulebooks will be updated, while the Office will work on developing new ones, as an example for the structural funds audit, supported by GIZ.
- Further administrative capacity building of the Office to assume new obligations stemming from Chapter 22- "Regional development"<sup>19</sup> and Chapter 11 – "Rural development"<sup>20</sup> – certification body.
- Ongoing upgrade of civil servants' knowledge in the area of audit skills.
- Reconstruction and extension of working space capacities aimed at creating technical conditions for hiring new staff and development of administrative capacities of the Office.

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<sup>19</sup> ACTION PLAN ON MEETING REQUIREMENTS IN THE AREA OF EU COHESION POLICY- Chapter 22 – Regional policy and coordination of structural instruments, adopted by the Government Conclusion 05 No: 337-3121/2019-1 of 04.04.2019.

<sup>20</sup> Action plan for transposition, adoption and implementation of EU acquis in the area of agriculture and rural development under pre-accession negotiations 05 no:337-9097/2018-1 of 18.10.2018.

## MEASURE-IMPROVING IRREGULARITY MANAGEMENT, COORDINATION AND COOPERATION IN SUPRESSING FRAUD AND PROTECTION OF FINANCIAL INTERESTS OF THE EUROPEAN UNION

### Key results by the end of 2018

- Budget System Law was amended and supplemented in December 2016 and in December 2017, to ensure a broader scope of responsibilities and necessary legal basis in relation to protection of the European Union financial interests, and of the Republic of Serbia for the Ministry of Finance (Department for combating irregularities and fraud in management of EU funds (hereinafter referred to as: “AFCOS”).
- Strategy for combating irregularities and fraud in management of EU funds in the Republic of Serbia for the period 2017-2020 and its implementing Action Plan were adopted at the Government session held on 26 October 2017, and published in the “Official Gazette of RS”, no. 98 of 3 November 2017;
- As of January 2017, AFCOS is in the position to receive reports on irregularities in management of EU funds and requests for control via the official web-page of the Ministry of Finance, thus enabling faster handling of such requests;
- Amendments to the Budget System Law from December 2018, in Article 2 “Definitions” added, under item 47a, a definition of administrative checks reading as follows: “47A) Administrative checks mean actions of checks, ex officio controls, oversight and other measures to determine the nature of an irregularity in order to protect financial interests of the European Union, and by that financial interests of the Republic of Serbia as well”;
- The Rulebook on internal organisation and job classification in the Ministry of Finance of 19 December 2018, Section for combating irregularities and fraud in management of EU funds was established as an organisational unit outside the composition of the sector, secretariat and cabinet, under the direct competence of the Minister of Finance. This Section comprises three groups: 1. Group for data analysis and risk management, 2. Group for acting upon reported irregularities and suspicion of fraud, and 3. Group for support, with ten classified work places. Reorganisation was carried out in line with the SIGMA analysis “Rationalisation of work of the budget inspection and Section for combating irregularities and fraud in management of EU funds” recommendations.

## Progress achieved in 2019

On 5 September 2019, Minister of Finance issued the Directive on the operation and manner of action of the Department on combating irregularities and fraud in management of EU funds regarding the reported, and in other ways recorded, irregularities and suspicion of fraud in management of the European Union funds in the Republic of Serbia (hereinafter referred to as: “Directive”). This Directive was issued to reinforce the said department, to allow undertaking administrative checks of the reported irregularities in management of the European Union funds.

Aiming to implement the risk management policy in the context of prevention of irregularities and fraud involving European Union funds, supported by the expert engaged by GIZ, AFCOS developed the following:

- risk analysis of all bodies participating in EU funds management to define areas at risk of irregularities and fraud,
- proposed risk management measures, and
- Methodological guidance on risk management in relation to irregularities and fraud in management of EU funds (hereinafter referred to as: “Methodological guidance”), including related annexes, thus meeting the indicator measuring progress in this area.

Following the development of the Methodological guidance, on 7 November 2019 Minister of Finance passed the Decision on the Methodological Guidance on risk management in relation to irregularities and fraud in management of EU funds. The said Decision and Methodological guidance with corresponding annexes were published on the website of the Ministry of Finance.

### *Key results*

*-Directive on AFCOS operation and manner of action;*

*-Methodological guidance on risk management in relation to irregularities and fraud in management of EU funds;*

*- Decision on the Methodological guidance on risk management in relation to irregularities and fraud in management of EU funds.*

### **Financing of the measure**

The measure was funded with the support of the project “Public Finance Reform-Financing 2030 Agenda” implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH- GIZ.

### **Key challenges**

Insufficient number of staff for delivery of envisaged functions.

### **Planned in the upcoming period**

The activities planned in the coming period refer to:

- Development of Strategy for combating fraud and irregularity management to protect financial interests of the European Union in the Republic of Serbia for the period 2021-2023, together with its implementing Action Plan.
- Support to the operation of the AFCOS Network in the Republic of Serbia;
- Coordination of legal, operational and technical cooperation, same as exchange of information with competent national institutions, European Anti- Fraud Office (OLAF) and other competent bodies and services of the European Union;
- Carrying out administrative checks of the reported irregularities in management of European Union funds to determine the nature of such irregularities;
- Coordination of activities in the area of combating irregularities and fraud in management of European Union funds;
- Filling up executive work posts.

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

### Progress achieved in 2019

- In 2019, Sector for EU funds management issued in total 15 confirmed Management Certificates, thus verifying that the indirect management system functions properly and lawfully.
- Updating the legislative framework, namely the Decree on management of the European Union pre-accession assistance programme under Component I of the Instrument for Pre-accession Assistance (IPA)- Transition Assistance and Institution Building (TAIB) for the period 2007- -2013 and Decree on management of the European Union pre-accession assistance programmes under the Instrument for Pre-accession Assistance (IPA II) 2014–2020 were updated in 2019.
- New Rulebook on internal organisation and job classification in the Ministry of Finance was passed in May 2019, setting forth changes within the Department for Contracting and Financing of EU Funded Projects and Department for EU Funds Management.
- Internal Control Group was classified under the Department for Contracting and Financing of EU Funded Projects with a primary task to address legal issues, issues pertaining to irregularities in implementation at the level of operating structure.
- The Unit for support to the National Authorising Officer (NAO) within the Department for EU funds Management was assigned to the Division for oversight and monitoring functioning of the system for TAIB, NAP and CBC funds management and Group for monitoring functioning of the IPARD funds management.
- Procedures for implementation of funds in a decentralised, i.e. indirect management were improved and have entered into force on 8 July 2019. New version of the procedures addresses

#### *Key results*

*- Decree on management of the European Union pre-accession assistance programme under Component I of the Instrument for Pre-accession Assistance (IPA);*

*- Transition assistance and institution building for the period 2007- - 2013;*

*- Decree on management of the European Union pre-accession assistance programmes under the Instrument for Pre-accession Assistance (IPA II) 2014–2020; .*

the findings of the European Commission auditors and Audit Office and formalises best practices established through work.

In 2019, two meetings of the Network of Irregularity Officers were organised, resulting in raised awareness on handling irregularities, exchange of experiences and enhanced participation of all irregularity officers, who exchanged their issues and opened discussions on the potential risks they had identified. Likewise, in 2019, National Academy of Public Administration organised two irregularity trainings, and same practice will be continued in 2020.

In the first quarter of 2019, Division for the control of the European Union pre-accession assistance funds management carried out risk assessment for on-site controls and planned 8 field visits. In the course of the year, the plan was fully implemented and Department for the control of the European Union pre-



accession assistance funds management also participated in ad-hoc field visits for grant beneficiaries together with Contracting Authority, Department for Contracting and Financing of EU Funded Projects (CFCU). Field visits carried out by the CFCU project managers were intensified, especially concerning the grant contracts, identified as the ones at highest risk. Since the beginning of the year, 45 field controls in total were implemented, with additional 50 planned by the end of the year.

In 2019, this focus of the management and control system on irregularities, resulted in the more efficient detection of irregularity cases and processing of irregularity signals and, most importantly, reporting of such cases to the European Commission and competent governmental institutions. In the past two years, 8 irregularity cases were reported to the European Commission. This progress made in the area of monitoring and reporting may be assigned to IPA bodies at the Ministry of Finance, NAO Support Office, Contracting Authority and AFCOS, which cooperated closely in delivering administrative and field controls, compiling reports, and had also cooperated with other relevant bodies and institutions. As a consequence of the confirmed irregularity cases, grant contracts were terminated, funds recovery amounts were determined, and some of the cases that include suspicion of fraud, were forwarded to the State Public Prosecutor's Office for further action.

## **Financing of the measure**

The measure was financed by regular funds from the national budget. The amount necessary for the newly hired staff was planned in the 2019 budget, and it has also been planned for 2020.

The work on preparation of recovery mechanisms of improperly spent funds was financed by the German Development Cooperation “Public Finance Reform-Financing 2030 Agenda” project, implemented by GIZ. For follow-up activities, financing opportunities with the support of GIZ, TAIEX, DIS IV and other sources will be explored.

## **Key challenges**

- Due to the insufficient number and undertraining of the staff as a direct consequence of the lacking staff retention policy, there is a risk of declining quality and delays in all relevant business processes.
- All bodies have recognised the risk of potential failure to recognise and thus report irregularities, due to the poor knowledge of the procedure and the nature of irregularity itself.

## **Planned in the upcoming period**

In 2020 the following activities were planned:

- Capacity building of structures for management and protection of national and EU funds includes two activities: analysis and proposal for system improvement and training and study visits for relevant staff.
- Establishing the EU funds recovery mechanism: through potential inclusion of the mechanism in the national legal system and practical training on the best practice model.
- In 2020, meeting of the Irregularity Officers Network will be organised in line with the procedures. In addition, the 2020 annual training programme covering the topics relevant for IPA funds, was improved based on the lessons learnt in the previous years.

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

### Key results by the end of 2018

In November 2018, the Rulebook on special elements of risk assessment, frequency of inspection oversight, i.e. risk-based control and special elements of the inspection oversight programme from the budget inspection scope was passed (“Official Gazette of RS”, no. 90/2018).

In December 2018, new Rulebook on Internal Organisation and Job Classification in the Ministry of Finance was adopted, setting forth that the Budget Inspection Department as a part of the Sector for control of public funds, was promoted to a separate Budget Inspection Sector.

The Budget Inspection Department performs tasks via two departments, as follows: Budget Inspection Division and Division for normative, study- analytical tasks, risk assessment and management divided into two groups.

In 2018, budget inspection performed inspection control of 15 entities.

### Progress achieved in 2019

In November 2019, the Rulebook on the manner and actions of budget inspection in performing oversight over the implementation of the Law on the deadlines for settling liabilities in commercial transactions (“Official Gazette of RS”, No. 78/2019) was passed. This Rulebook lays down the manner and procedure of performing oversight of the implementation of the said law in cases when transactions are being executed between the public sector and companies where public entities are debtors, same as among the public entities, and the manner and procedure of taking over the data on the unsettled liabilities of public enterprises from the information system of the Treasury Administration.

#### *Key results*

*- Rulebook on the manner and actions of budget inspection in performing oversight over the implementation of the Law on the deadlines for settling liabilities in commercial transactions,*

*Methodology on the Budget Inspection Operation, aimed at proper and harmonised actions and work of the Budget Inspection at the Ministry of Finance, Budget Inspection Service of the Autonomous Province and Budget Inspection Service of local government units.*

In December 2019, Methodology on the Budget Inspection Operation was adopted, aimed at proper and harmonised actions and work of the Budget Inspection of the Ministry of Finance, Budget Inspection Service of the Autonomous Province and Budget Inspection Service of local government units, thus meeting the indicator measuring progress in this area.

The Methodology defines in more detail the targets, scope, content, manner and conditions of performing budget inspection tasks, rights and responsibilities of entities subject to inspection control, tasks and actions undertaken by the budget inspectors in scope of the procedure, same as authorised budget inspection officials, and measures undertaken.

In June 2018, Training Programme for budget inspectors was developed, aimed at administrative capacity building of the Budget Inspection Sector staff so as to address work requirements, in line with the applicable legal framework, thus meeting one more indicator measuring progress in this area. The staff training programme includes two parts: first part pertaining to expert knowledge necessary for delivery of works tasks, and second part relating to acquiring of additional skills necessary for better performance of tasks.

In 2019, Department for Budget Inspection staff participated in numerous trainings organised by the National Academy of Public Administration, Republic of Serbia Public Policy Secretariat, GIZ, OSCE, NALED, Treasury Administration and “Gi Group HR Solutions” company, to improve the level of knowledge of budget inspectors for delivery of work tasks and in that way meet another indicator measuring progress in this area.

In 2019, budget inspection performed inspection control of 43 entities (28 controls more than in 2018). Baseline value of the set indicator “Increased the number of delivered inspection controls” was 25, and it envisaged increase in the number of controls by more than 5%, meaning that the budget inspection exceeded by far the set indicator at the level of the growth target by 68%.

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*Increased number of delivered inspection controls  
by 68% in 2019*

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### **Financing of the measure**

Budget funds were used for implementation of the said activities of the Budget Inspection Sector. Drafting of the budget inspection operation Methodology, same as of the budget inspection staff training programme were financed with the support of the German Development Cooperation “Public Finance Reform- Financing 2030 Agenda” project, implemented by GIZ.

Staff training was implemented in organisation of the National Academy of Public Administration and GIZ.

### **Key challenges**

The Rulebook on internal organisation and job classification adopted in December 2018 classified under the newly established Budget Inspection Sector 40 work posts in total, unlike the previous Rulebook under which only 23 work posts were classified, and the procedure of filling up 8 executive vacancies is under way.

The planned increase in staff number will contribute to a more efficient and functional work of the Budget Inspection Sector, in terms of the number of controls undertaken against the number of received submissions, reports and requests for control, which will contribute to improved protection of financial interests of the Republic of Serbia.

### **Planned in the upcoming period**

Strategic plan of the budget inspection control in the Republic of Serbia for the period 2020-2025 with the implementing action plan, will be developed and passed by 31 March 2020, and its purpose is to create conditions for a more efficient and systematic work of the budget inspection through definition of a clear mission, vision and values of the budget inspection, and definition of targets. Overall goal laid down in this strategic plan, is increased legality in the area of material- financial operations and lawful spending of budget beneficiaries, enterprises, legal and other entities set forth in the Budget System Law. Overall goal was planned to be achieved through an increased number of inspection controls, improved efficiency and effectiveness of such controls, finally resulting in positive effects on the budget of the Republic of Serbia.

The Budget System Law was planned to be amended and supplemented in part relating to actions and operation of budget inspection. In accordance with amendments and supplements to the Budget System law in 2020, preparation and harmonisation of regulations and general acts implementing the Budget System law (rulebooks, guidelines, clarifications, etc.) are being planned.

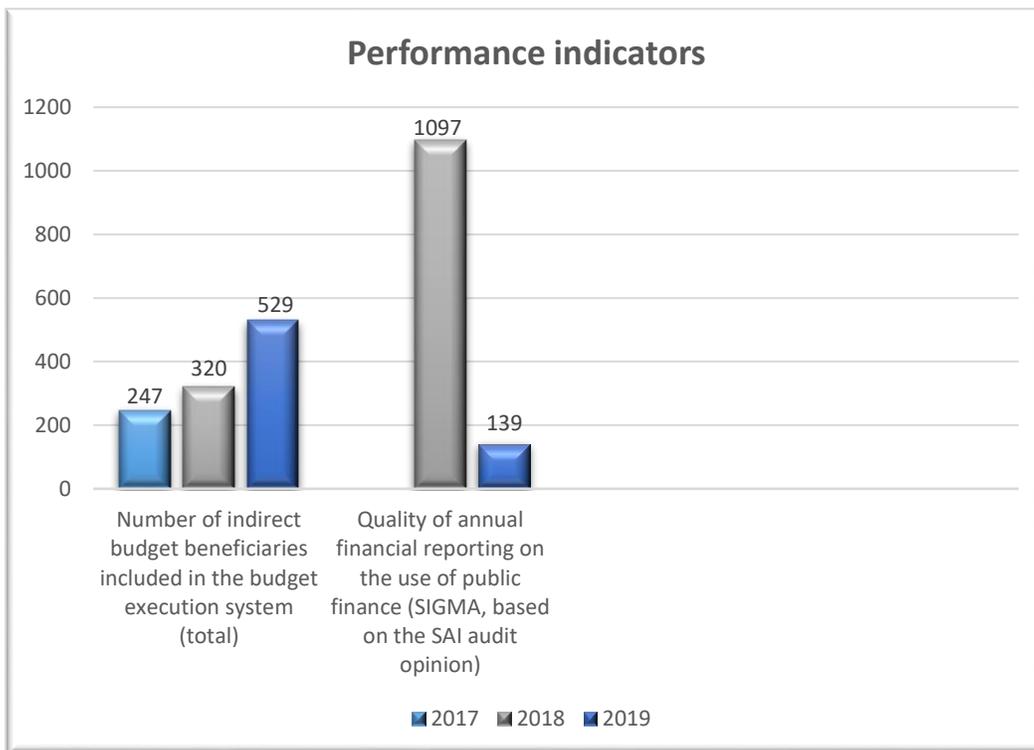
In 2020, training for budget inspectors is planned to be delivered in the form of specialised trainings. Bearing in mind further development of the budget inspection capacities, improvement of knowledge and skills of the staff through specialised trainings and workshops, will assist the budget inspection in facing everyday problems in performing inspection controls.

## PILLAR-ACCOUNTING, MONITORING AND FINANCIAL REPORTING

### MEASURE-IMPROVED SCOPE AND QUALITY OF BUDGET EXECUTION REPORTING

#### Key results in the previous period

The scope and quality of reporting on the budget execution and fiscal reports have been improved in several stages. Execution of the budget of the Republic of Serbia is undertaken via the Treasury Administration information system, budget beneficiaries are linked to so as to manage their financial and operational processes, based on their own respective scopes, using the logistic support provided by the Treasury Administration.



*Graph 13: The number of indirect budget beneficiaries included in the budget execution system (total) and quality of the Annual financial statements on the use of public finance (s, based on the SAI audit opinion)*

- Information system of Treasury Administration was continuously improved through upgrade and enhancing of its functionality. Production of the new budget execution system was launched on 1 January 2018. Secondary center for data storage was also established via support from the EU pre-accession funds.

- Final analysis of public enterprises' operation in 2017<sup>21</sup> and 2018<sup>22</sup> was compiled and published on the website of the Ministry of Economy.
- Monitoring and reporting on arrears has been improved by additional extension of the *RINO* system to include liabilities of the “public sector” towards the public sector (as of 1 January 2016).
- As of 1 March 2018, the Law on Amendments and Supplements to the Law on Deadlines for Settling Liabilities in Commercial Transactions (“Official Gazette of RS”, No. 113/17), stipulates, inter alia, the obligation to register invoices and other payment requests issued by creditors in commercial transactions between the public sector and business entities, or between the public sector entities, in which public sector entities are debtors. In that sense, the Ministry of Finance-Treasury Administration established the Central Register of Invoices (in Serbian: CRF) as a database for registration of the respective invoices and other payment requests.
- New Rulebook on the manner and procedure of performing oversight (“Official Gazette of RS”, No. 16/2018) was adopted, setting forth the manner and procedure of downloading data on settled and outstanding liabilities forwarded by the public sector entities via the Treasury Administration information system.

### **Progress achieved in 2019**

As of 1 January 2019, indirect beneficiaries of the Ministry of Labour, Employment, Veteran and Social Issues- social protection institutions, were included in the budget execution system.

### **Financing of the measure**

Activities are funded from the budget funds of the Republic of Serbia and with the support of the IMF and World Bank.

### **Key challenges**

Major challenges for the delivery of this measure were as follows:

- Administrative and technical capacities of indirect budget beneficiaries linked to the budget execution system;

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<sup>21</sup> 2017 Final operational analysis, <https://privreda.gov.rs/konacna-analiza-poslovanja-2017-godinu/>

<sup>22</sup> Analysis of public enterprises' operation for the period from 1 January to 30 June 2018, <https://privreda.gov.rs/analiza-poslovanja-javnih-preduzeca-za-period-od-1-januara-do-30-juna-2018/>

### **Planned in the coming period**

The measure was fully implemented. What lies ahead is the continuous upgrade of the results achieved in the past period.

### **MEASURE-STRENGTHENING THE EXISTING CAPACITIES OF THE PUBLIC SECTOR ACCOUNTING SYSTEM**

#### **Key results in the previous period**

Gap analysis between the accounting practice and *IPSAS* standards was carried out with the IMF support.

A new draft road map for introduction of the public sector accounting standards was elaborated in line with additional analyses and evaluations, with technical support of the IMF.

“Pro forma” financial statements for 2015- 2018 were developed in accordance with *IPSAS* cash basis standard for the central government level.

#### **Progress achieved in 2019**

- The new, accompanying Action Plan to the Reviewed Public Financial Management Report Programme for the period July 2019-December 2020 included the amendments promoting a new long-term objective regarding introduction of accrual-based accounting by 2030.
- A draft comparative analysis mentioned in the Reviewed Public Financial Management Reform Programme, was elaborated with the countries implementing International Accounting Standards in their public sectors.
- The continuous training programme was initiated, aimed at accounting capacity building in the public sector. Likewise, in 2019, to meet the indicator at the level of the target “Share of public sector accountants included in the certification programme”, an event- training was delivered for 60 participants, which, together with the baseline value, sums up to the planned 38% thus meeting this indicator.

#### **Financing of the measure**

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

## Key challenges

- Limited knowledge of *IPSAS* standards in the Republic of Serbia may represent an obstacle in harmonisation with such standards. A potential long-term challenge pertains to the capacity of the staff to master and apply new standards. The lack of certified professional staff may represent a barrier to improving accounting in the Republic of Serbia. This is why certification, continuous training and strengthening the skills of public accountants are more than needed.
- Lacking capacities in the entire public sector accounting system clearly indicate their insufficiency and the need for their strengthening.
- Translation of *IPSAS* standards- the standards were translated by the Association of Accountants and Auditors of Serbia. The translation has to be fully harmonised in order to be ready for official endorsement and publishing.

## Planned in the upcoming period

- The Ministry of Finance, as the implementer of activities in the implementation of the public sector accounting system reform, needs to strengthen their own capacities and resources, both at the Ministry of Finance and Treasury Administration. Capacities and resources need to be reinforced in budget beneficiaries as well, in order for the reform to be successfully implemented.
- Introduction of accrual accounting is a rather expensive and long-term reform to be additionally developed, and in that respect, further analysis of options, risks, costs, etc. needs to be undertaken. Cost-benefit analysis concerning the gradual transition of accrual accounting in the Republic of Serbia. This analysis will be extremely important as guidance for further steps in the overall process of the accounting reform, bearing in mind that there is no harmonised practice in the EU Member States when the accounting basis is concerned.
- Comparative analysis with countries which introduced accrual accounting. The existing comparative analysis draft needs to be extended by new analyses and opinions of experts in this area.



- Engagement in the internationally recognised training and certification programme would represent a desirable step towards sustainable administrative capacity building.

## PILLAR-EXTERNAL SCRUTINY OF PUBLIC FINANCES

### MEASURE-IMPROVED SCOPE AND QUALITY OF EXTERNAL AUDITS

#### Key results in the previous period

- The Quality Assurance and Quality Control Manual was adopted (Quality Assurance and Control Policies and Procedures), as a result of the 2013 IPA twinning light project "Audit quality control at the State Audit Institution".
- Key outputs relating to the number of recommendations, published reports, number of audit teams and annual audit programmes are illustrated in the overview below:

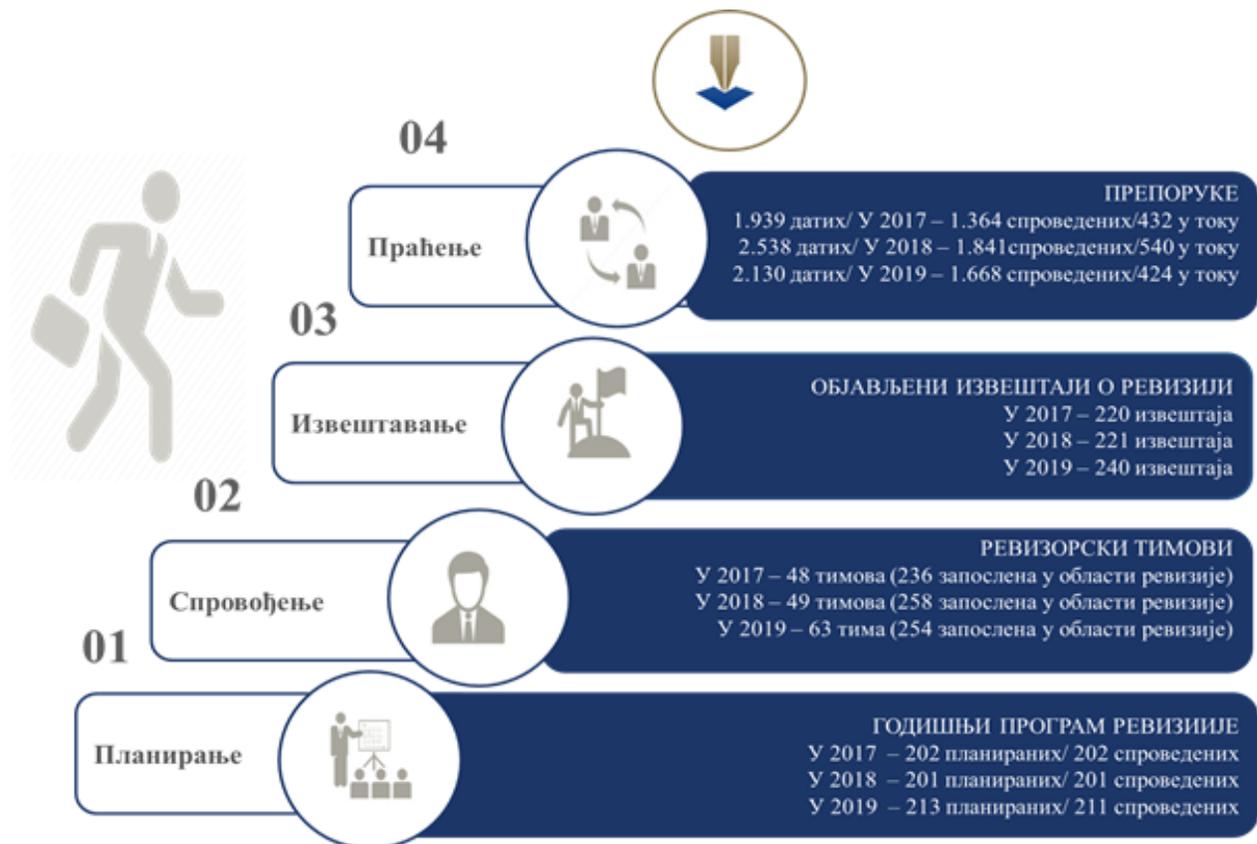
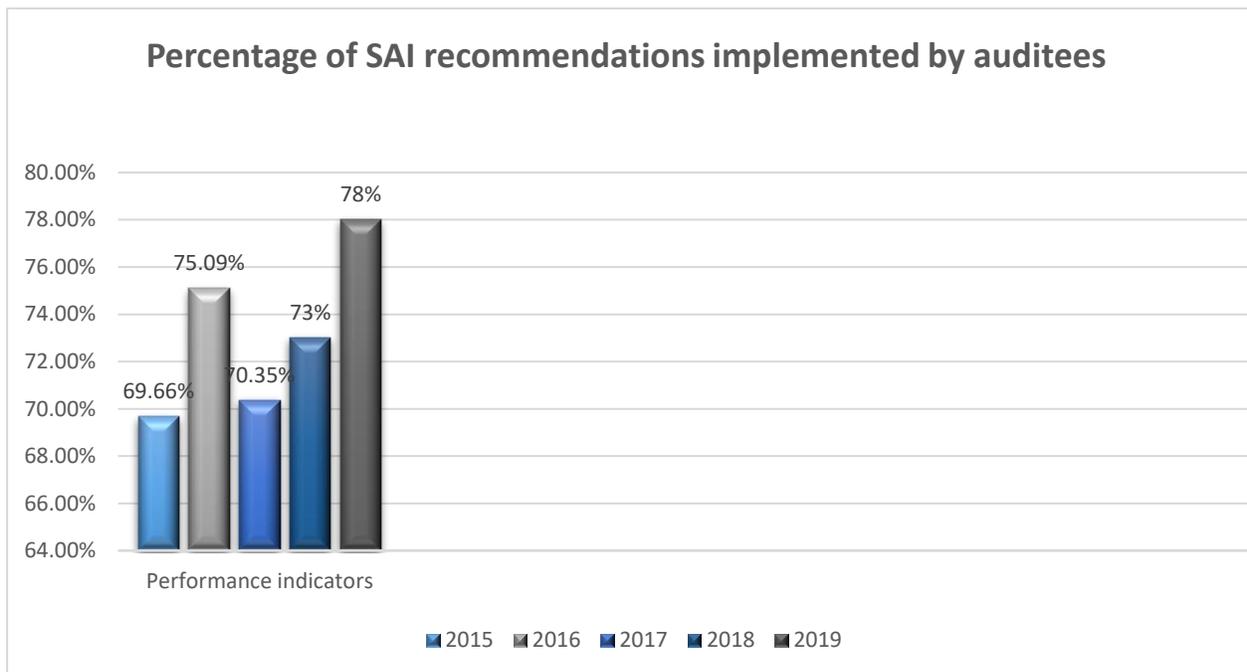


Illustration 12: SAI achievements in different stages of the audit business process, for 2017, 2018 and 2019

## Progress achieved in 2019



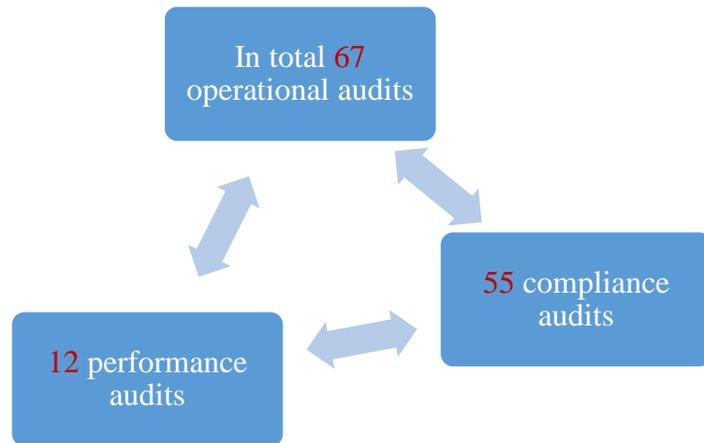
*Graph 14: Percentage of SAI recommendations implemented by auditees*

As shown in the graph, target indicator value of 74% at the level of the objective “Share of recommendations issued by the SAI adopted by auditees” for 2019 was exceeded and amounts to 78% thus meeting this indicator.

The time frames for the delivery of individual activities under the measure “Improved scope and quality of external audits” are continuous, lasting until the fourth quarter of 2020. Primarily starting from the SAI Strategic Plan for the period 2019-2023,<sup>23</sup> State Audit Institution focused its activities on further strengthening of audit process, human resources management, and reinforcing the SAI impact. In 2019, Institution invested significant efforts to ensure high quality of audit, positively affecting the functioning of the public sector.

<sup>23</sup> Strategic Plan of the State Audit Institution, <https://www.dri.rs/%D0%B4%D0%BE%D0%BA%D1%83%D0%BC%D0%B5%D0%BD%D1%82%D0%B8/%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D1%88%D0%BA%D0%B8-%D0%BF%D0%BB%D0%B0%D0%BD.42.html>

In line with the increased capacities, 12 performance audits were carried out. At the same time, focusing on areas where highest risks were identified, namely those with highest impact, 55 compliance audits were implemented in 2019. Under the indicator for the measure “Improved scope and quality of external audits” in the Revised Action Plan implementing the Public Financial Management Reform Programme with a focus on the importance of operational audits (compliance and performance audits), the State Audit Institution planned 67 operational audits in 2019, thereby meeting the indicator for 2019 measuring the progress in this area.



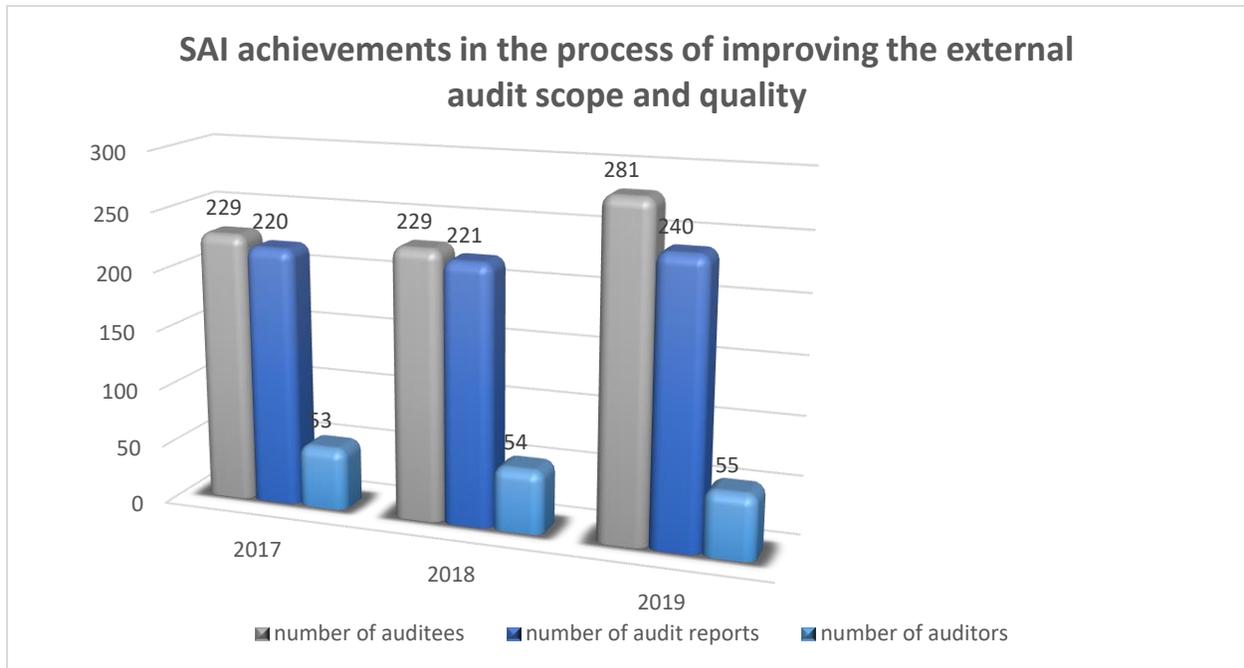
*Illustration 13: SAI business audits in 2019*

In 2019, State Audit Institution published 240 audit reports.<sup>24</sup> For the first time since its establishment, the SAI performed the audit of the 2018 Consolidated Statement of the Republic of Serbia. Likewise, having in mind goals and sub-goals defined in the [SAI Strategic Plan](#), the goal 1 - Address current and urgent challenges in the budget beneficiaries’ operation, audits encompassed all nine sub-goals.



*Illustration 14: Key SAI results in 2019*

<sup>24</sup> Audit reports, <https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D0%BF%D0%BE%D1%81%D0%BB%D0%B5%D0%B4%D1%9A%D0%B8-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98.135.html>



*Graph 15: SAI achievements in the process of improving the external audit scope and quality*

At the same time, given that audit reports do not represent an objective per se, but are only to contribute to good governance, transparency and accountability in the public sector, it was necessary to undertake additional activities to increase the implementation of recommendations by audited entities.

To that end, in 2018, SAI published a template of the Auditee Response Report on their website. Using the possibility provided in the template to state the period in which rectification measure is planned be implemented (including submitting an action plan, for example), auditees assume an ongoing obligation to report their actions upon the recommendations. In relation to this, in 2019 SAI started publishing on their website

Auditees' Response Reports<sup>25</sup> and Post-audit Reports<sup>26</sup> showing which auditees have rectified irregularities or underperformance, and which have not. All stakeholders have the opportunity to monitor the behaviour of an auditee, and see whether they are accountable in terms of rectifying irregularities and how is that being assessed by an auditor.

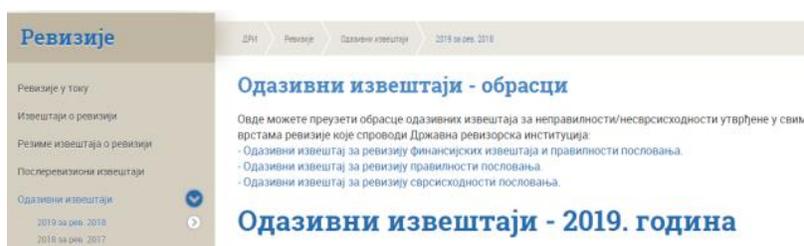


Illustration 16: [2019 Response reports on the SAI website](#)

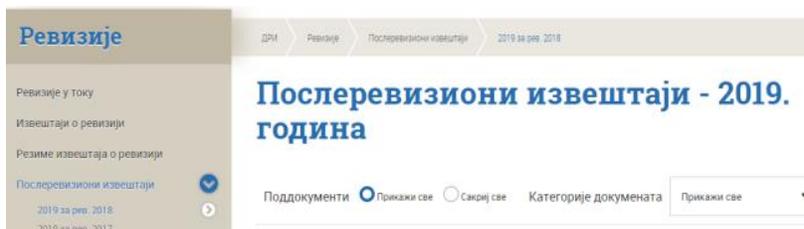


Illustration 15: [2019 Post-audit reports on the SAI website](#)

In 2019, on the SAI website 283 response reports of audited entities were published, along with 280 Post-audit reports. Taking into consideration that post-audit reports have now become publicly available, for the first time SAI is in the position to report on the total number of audit products delivered and published on the SAI website; in 2019 there were 520 of them.

*For the first time SAI is in the position to report on the total number of audit products delivered and published on the SAI website; in 2019 there were 520 of them.*

The improvements of the scope and quality of external audit were achieved by further

implementation of the manual and set of guidelines<sup>27</sup> used by the SAI to implement audits in line

<sup>25</sup> 2019 Response reports, <https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D0%BE%D0%B4%D0%B0%D0%B7%D0%B8%D0%B2%D0%BD%D0%B8-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B8/2019-%D0%B7%D0%B0-%D1%80%D0%B5%D0%B2-2018.418.html>

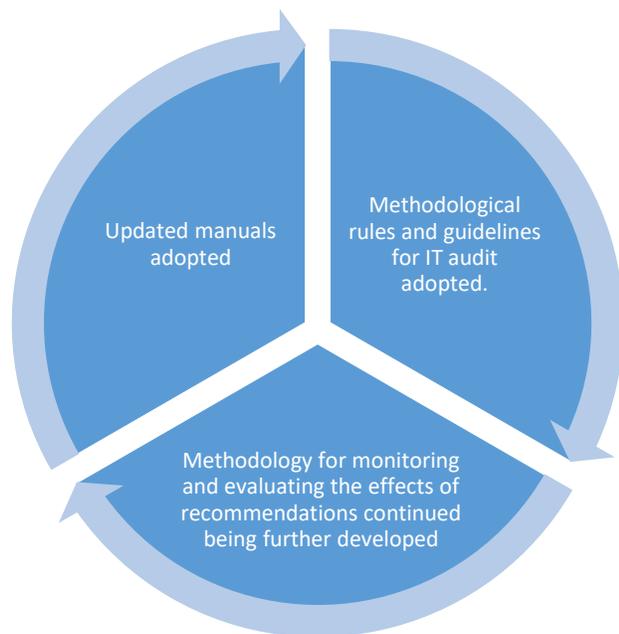
<sup>26</sup> 2019 Post-audit Reports, <https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D0%BF%D0%BE%D1%81%D0%BB%D0%B5%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D0%BE%D0%BD%D0%B8-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B8/2019-%D0%B7%D0%B0-%D1%80%D0%B5%D0%B2-2018.441.html>

<sup>27</sup> In addition to audit manuals adopted in April 2015 (Manual- Methodological rules and guidelines for financial and compliance audits; Manual- Methodological rules and guidelines for performance audit) a set of guidelines was

with *ISSAI* standards. At the same time, in line with the Manual on quality assurance and quality control in 2019, 17 “hot” and 7 “cold” reviews of audit reports were published. Based on the acquired experience, recommendations arising from the said audit report reviews and further capacity building in 2019, the following updated manuals were adopted: 1. Amendments and supplements to the Methodological rules and guidelines for **financial audits**, 2. Methodological rules and guidelines for **compliance audits**, and 3. Methodological rules and guidelines for **performance audits** for all three listed types of audits. As envisaged under the SAI Strategic Plan, in 2019 Methodological rules and guidelines for IT audit were adopted in 2019, also passed in line with *ISSAI* standards and best international auditing practices. Further development of the Methodology for monitoring and evaluation of the follow-up effects of recommendations was continued..

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

An ongoing capacity building of the SAI staff in 2019 was achieved through delivery of internal and international trainings, and by their participation in various *INTOSAI* and *EUROSAI* organisations and working groups.



*Illustration 17: SAI achievements in 2019*

Improving audit efficiency and quality will be realised via implementation of the audit management software. After finalising the mapping process of the tailor-made *Audit Management System- AMS*

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adopted, used by the SAI for further implementation of audits (Instruction on implementing the post-audit procedure; Guidelines for assessment of auditee’s sound business obligation violations; Instruction on elaboration of financial and compliance audit reports; New audit reports’ templates (in line with the revised International Standard on Auditing-ISA 700), etc.).

software, to be used by the SAI to digitize its processes, in 2019 the software procurement process was launched.

*The European Commission 2019 Progress Report,*<sup>28</sup> supports continuous improvement of the SAI audit work quality.

### **Financing of the measure**

The funds for financing of this measure are ensured from the budget of the Republic of Serbia and GIZ, United Nations Development Programme (UNDP), US Agency for International Development (USAID), and UK Good Governance Fund (GGF 2).

### **Key challenges**

Major challenges for the delivery of this measure are as follows:

- Insufficient working space capacity affects the SAI ability to hire new staff.
- Insufficient staff number (staff number and structure affect the audit coverage) is directly linked with the funding available and working space availability.
- Lack of funding – budget and external funds (donors).<sup>29</sup>

### **Planned in the upcoming period**

- Bearing in mind both strategic goals and sub-goals, in the forthcoming period SAI will continue separately implementing financial audits, compliance audits and performance audits, while combined audits will be performed based on the assessed risk.
- The SAI activities will be focused on further continuous improvement of audit procedure, human resources management and strengthening the influence of the SAI via enhancing systemic monitoring of recommendations' implementation and communication.
- As needed, existing rulebooks will be updated, the work will be continued on developing new ones, for example, for the environmental audit. At the same time, through workshops and exchange of experiences and trainings for the application of the Model for sustainable development goals' audit developed by the Development Initiative INTOSAI (IDI) aimed at further contribution of the SAI in the sustainable development goals' implementation process, human capacity building will be continued.

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<sup>28</sup> Link to document: <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-serbia-report.pdf>

<sup>29</sup> Public Administration Principles, p.190 <http://www.sigmaxweb.org/publications/Monitoring-Report-2017-Serbia.pdf>

- The SAI will continue training new performance auditors to ensure higher number of the performance audits' implementation in the future period. In addition, to ensure value added and benefits to the citizens, in the coming period special emphasis will be placed on increasing the number of compliance audits.

Following the procurement of the tailor-made audit management *AMS* software, the software will be tested in the coming period, both through its application and staff training. Inter alia, the system will contribute to the completion of the recommendation monitoring system.

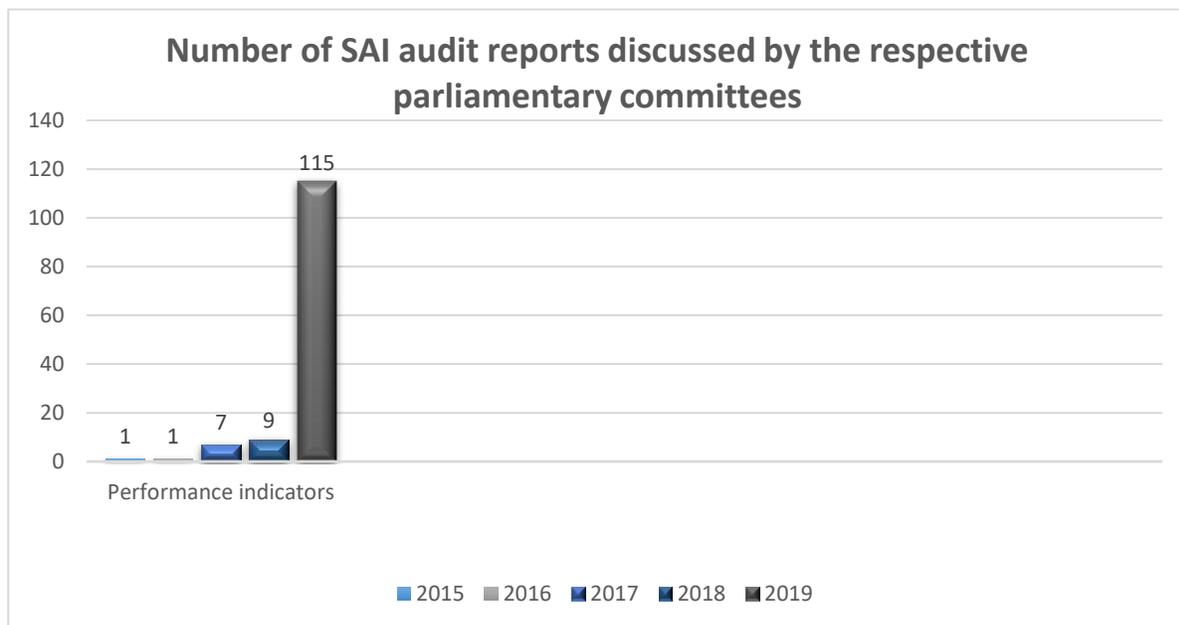
Strengthening cooperation with the National Assembly will be continued through provision of expert support for actions after submission of the SAI report and by ensuring an efficient system for the recommendation implementation monitoring.

## **MEASURE-STRENGTHENING PARLIAMENTARY OVERSIGHT OF PUBLIC FINANCE**

### **Key results in the previous period**

- Parliamentary oversight function of public finance has been enhanced through formation of the Subcommittee for consideration of the State Audit Institution audit reports (hereinafter referred to as: Subcommittee) in February 2015, and by the appointment of new Subcommittee members in 2016.
- In the third quarter of 2017, a significant progress was achieved by adoption of the Guidelines on the Subcommittee operation, thereby final preparatory measures were completed for the full implementation of the measure.
- The Memorandum of Understanding was signed between the National Assembly Committee on Finance, State Budget and Public Spending Control and the SAI to promote the principles of accountability, transparency and efficiency in public funds spending and define grounds for mutual cooperation.

At the Committee and Subcommittee session held in Novi Sad on 30 August 2017, the Committee on Finance, State Budget and Public Spending Control adopted the Guidelines for consideration of SAI reports on the performed audits of budget beneficiaries.<sup>30</sup>



Graph 16: Number of the SAI audit reports discussed by the corresponding parliamentary committees<sup>31, 32, 33</sup>

<sup>30</sup> [http://www.parlament.gov.rs/27.%D1%81%D0%B5%D0%B4%D0%BD%D0%B8%D1%86%D0%B0\\_%D0%9E%D0%B4%D0%B1%D0%BE%D1%80%D0%B0\\_%D0%B7%D0%B0\\_%D1%84%D0%B8%D0%BD%D0%B0%D0%BD%D1%81%D0%B8%D1%98%D0%B5..32054.43.html](http://www.parlament.gov.rs/27.%D1%81%D0%B5%D0%B4%D0%BD%D0%B8%D1%86%D0%B0_%D0%9E%D0%B4%D0%B1%D0%BE%D1%80%D0%B0_%D0%B7%D0%B0_%D1%84%D0%B8%D0%BD%D0%B0%D0%BD%D1%81%D0%B8%D1%98%D0%B5..32054.43.html)

<sup>31</sup> In 2019, the reports considered are as follows: The 2018 SAI operational report; sic SAI sector report: Report on the work of the Sector for budget and budget funds audit of the Republic of Serbia for 2018, Report on the work of the Sector for the audit of the local government budgets for 2018, Report on the work of the Sector for audit of compulsory social insurance organisations for 2018, Report on the work of the Sector for audit of public enterprises, companies and other legal entities established by the Republic of Serbia or the RS has a share in capital of other legal entities for 2018, Report on the work of the Audit Sector of the National Bank of Serbia and public agencies and other budget beneficiaries for 2018, Report on the work of the Performance Audit Sector for 2018, Reports on financial audits implemented in 2019 (88 reports in total); Reports on compliance audits implemented in 2019 (7 reports in total); Reports on audits of closing annual statements of the Republic of Serbia budget from 2008 to 2018 (11 reports in total): Report on the financial and compliance audits of the Town of Krusevac and effects of implemented SAI recommendations; Report on the audit of consolidated financial statements of the closing budget statement of the Town of Zrenjanin for 2018, and Report on the the audit of consolidated financial statements of the closing budget statement of the Town of Čačak for 2018.

<sup>32</sup> In 2018, the reports considered are as follows: The 2017 SAI operational report; six sector reports: Report on the work of the Sector for budget and budget funds audit of the Republic of Serbia for 2017, Report on the work of the Sector for audit of compulsory social insurance organisations for 2017; Report on the work of the Audit Sector of the National Bank of Serbia and public agencies and other budget beneficiaries for 2017; Report on the work of the Sector for the audit of the local government budgets for 2017; Report on the work of the Sector for audit of public enterprises, companies and other legal entities established by the Republic of Serbia or the RS has a share in capital of other legal entities for 2017; Report on the work of the Performance Audit Sector for 2017, Report on the implemented SAI audit of the Town of Subotica and effects of implemented State Audit Institution recommendations; Report on the audit of consolidated financial budget statements and compliance audit of the Town of Leskovac for 2015 and 2017 response report audit.

<sup>33</sup> In 2017, the reports considered are as follows: Report on the work of the Sector for budget and budget funds audit of the Republic of Serbia for 2016 and recommendations and other effects of audits implemented in 2016, Report on

## Progress achieved in 2019

The Committee continued with their activities in 2019 related to the discussion of the SAI reports in the local government units so as to promote accountability, transparency and efficiency in public funds spending, and raise awareness on the importance of the oversight function of the National Assembly. In the presence of representatives of the State Audit Institution and of the competent ministry, Committee held three sessions out of their seat in Kruševac, Zrenjanin and Čačak, whereat reports of the institution were presented and initiatives for regulatory amendments and supplements concerning financial reporting and public procurement discussed. Three sessions held outside of the seat resulted in meeting the 2019 indicator measuring progress in this area. Moreover, together with the representatives of the State Audit Institution and the Ministry of Finance, the Committee organised one consultative meeting on the SAI recommendations for regulatory amendments.

In May 2019, the Committee held its session outside the seat of the National Assembly, in Kruševac. At this session, in the presence of the president

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*Three sessions held outside of the seat resulted in meeting the 2019 indicator measuring progress in this area.*

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and members of the SAI Council, supreme and certified auditors, same as in the presence of representative of the Town of Kruševac, the Committee discussed the Financial and Compliance Audits Reports for the Town of Kruševac, and effects of the implemented SAI recommendations. In scope of the same Committee session, the Sub-committee held its fourth session to discuss the SAI sector reports, and reported to the Committee thereabout, after which the Committee adopted the SAI sector reports. At the same session, the 2018 SAI Operational Report was presented, and following the discussion, the Committee determined the Proposed Conclusion stating that the SAI presented their activities in executing their competences in a holistic manner. In addition to this, National Assembly was proposed to recommend to the Government of the Republic of Serbia to

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the work of the Sector for audit of compulsory social insurance organisations for 2016 and recommendations and other effects of audits implemented in 2016; Report on the work of the Audit Sector of the National Bank of Serbia and public agencies and other budget beneficiaries for 2016 and recommendations and other effects of audits implemented in 2016; Report on the work of the Sector for the audit of the local government budgets for 2016 and recommendations and other effects of audits implemented in 2016; Report on the work of the Sector for audit of public enterprises, companies and other legal entities established by the Republic of Serbia or the RS has a share in capital of other legal entities for 2016 and recommendations and other effects of audits implemented in 2016; Report on the work of the Performance Audit Sector for 2016 and recommendations and other effects of audits implemented in 2016, and The 2016 SAI Operational Report.

undertake measures from their own competence to ensure implementation of the SAI recommendations so as to ensure consistent enforcement of the Budget System Law in part relating to the establishment of the financial management and control system, and introduction of internal audit in budget beneficiaries.

In September 2019, the Committee held its out-of-seat session in Zrenjanin, whereat, in the presence of SAI representatives, the Report on the 2018 Consolidated Financial Statements of the Final Budget Accounts of the Town of Zrenjanin audit was discussed. Given the Committee and Subcommittee obligations arising from the Action Plan implementing the PFM RP, and in order to ensure the presence of the sufficient number of MPs for the Subcommittee session to be held, the Committee passed the Decision on the amendments and supplements to the Decision on the formation of the Subcommittee discussing the report on the performed audits by the State Audit Institution. During the Committee session, the Sub-committee delivered its fifth session where the SAI president presented a comparative overview of 88 financial audit reports implemented in 2019, same as the comparative overview of 7 compliance audit reports implemented in 2019, and the Subcommittee thereafter filed the report to the Committee on the consideration of these reports. Following the adoption of these reports, in the presence of representatives of the SAI and the Ministry of Finance, Committee considered new legal solutions proposed in the Accounting Law Bill, Audit Law Bill and Public Procurement Law Bill, and opened the issue of further improvement of inter-relation of two institutions through specification of the future performance audit topics.

Given that the Government of the Republic of Serbia has forwarded to parliamentary procedure the proposed Law on Final Accounts of the Republic of Serbia for the period 2002- 2018, and that the SAI report on the budget final statement audit is an integral part of the final budget accounts, at its out-of-seat session in Čačak, in the presence of the SAI representatives and representatives of the Treasury Administration, in addition to the Report on the Consolidated closing budget financial statements of the Town of Čačak, the Committee discussed the SAI reports on the audits of the final accounts of the Republic of Serbia budget for the period 2008- 2018 (11 reports in total).

Sessions of the National Assembly of the Republic of Serbia and sessions of all working bodies, press conferences, public debates, activities of the Speaker of the National Assembly and other

events, can be followed live or can be accessed via the archive on the web page, thus ensuring access to the media and interested nongovernmental organisations and third parties.<sup>34</sup>

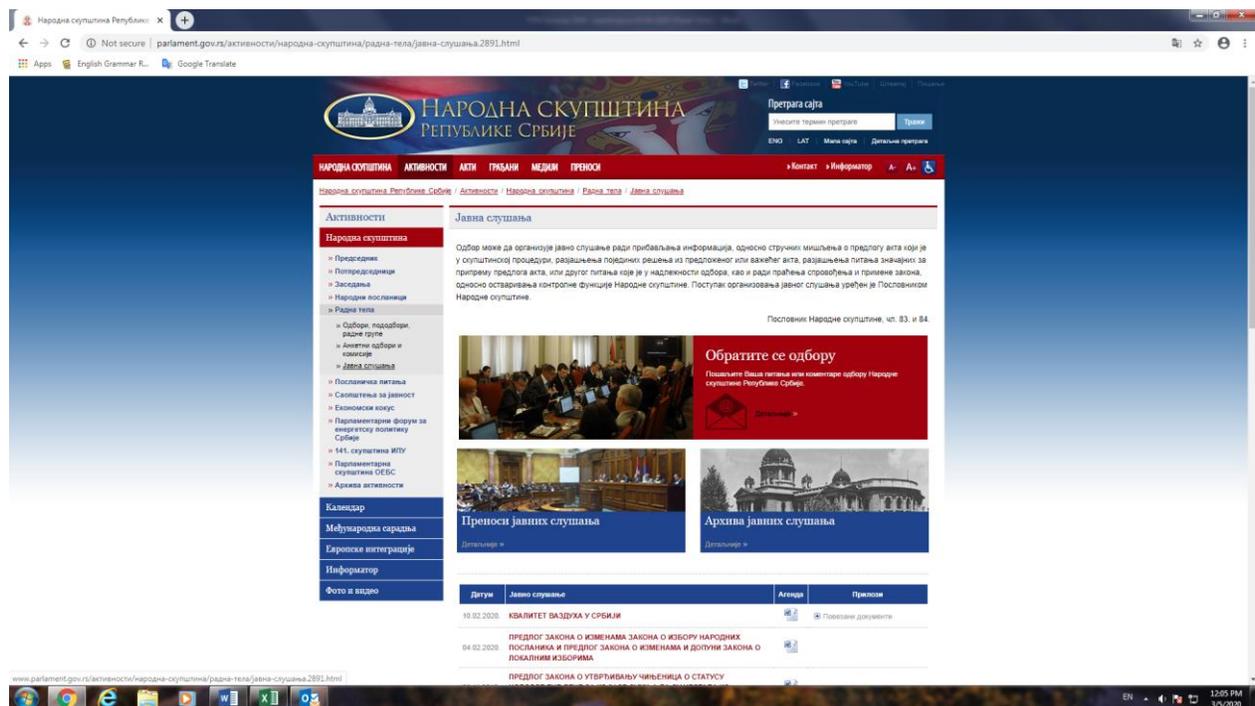


Illustration 18: Public hearings

## Financing of the measure

The PFM RP does not state the additional amount for financing the activities of the Committee on Finance, State Budget and Control of Public Funds Spending of the National Assembly, since all activities are implemented in scope of the existing state budget available to the Parliament, SAI and the Ministry of Finance.

## Key challenges

The greatest challenges in implementing this measure are connected with the lack of the mechanism to monitor implementation of the SAI recommendations and conclusions of the National Assembly on the consideration of the National Assembly reports which is yet to be developed so as to improved cooperation between the SAI, public authorities and the Parliament.

## Planned in the upcoming period

<sup>34</sup> Public hearings, <http://www.parlament.gov.rs/activities/national-assembly/working-bodies/public-hearings.3016.html>

- In its future work, the Committee will tend to develop its oversight function, especially by holding the Subcommittee and the Committee sessions to discuss the SAI reports on performed audits with the presence of representatives of this institution, auditees and, if needed, representatives of other relevant authorities, organisations and institutions.
- The practice of holding out-of-seat sessions, in the local government units, will be continued. It was planned to increase the number of these sessions in the coming year to four out-of-seat sessions, whereat, with the participation of representatives of audited entities, representatives of competent ministries and representatives of other relevant authorities, organisations and institutions, and of course, representatives of the SAI, SAI reports on the audit of such entities are to be discussed.
- It was planned to engage an expert team to provide expert support to the members of the Subcommittee, and Committee in considering audit reports of the State Audit Institution. The expert team would include professors from the faculties of economics, representatives of the Audit Office of EU Funds, Chamber of Certified Auditors of Serbia, Association of internal Auditors of Serbia, and representatives of SIGMA, GIZ and Delegation of the European Union in Belgrade.