



REPORT ON THE IMPLEMENTATION OF PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME 2016-2020 FOR THE PERIOD JANUARY-DECEMBER 2018

Abbreviations and acronyms

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| AES & AIS | Automated Export and Import Systems |
| AFCOS | Anti-Fraud Coordination Service in dealing with EU Funds |
| BI | Budget Inspection |
| BIS | Budget Information System |
| BRA | Business Registers Agency |
| CAAT | Computer Assisted Audit Tools |
| DBB | Direct Budget Beneficiaries |
| DG TAXUD | Directorate General for Taxation and Customs Union |
| DSA | Debt Sustainability Analyses |
| EC | European Commission |
| ERIAN | Electronical Risk Analysis Information System |
| ESA | European System of National and Regional Accounts |
| EU | European Union |
| FAD | Fiscal Affairs Department of the IMF |
| FMC | Financial Management and Control |
| CHU | Central Harmonization Unit |
| FMS | Financial Management Information Systems |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics Manual |
| GIZ PFR | Gesellschaft für Internationale Zusammenarbeit – German Agency for International Cooperation, public finance reform project |
| HRMS | Human Resource Management Service |
| IA | Internal audit |
| IBB | Indirect Budget Beneficiaries |
| IMF | International Monetary Fund |
| IGMA | Support for Improvement in Governance and Management |
| IPSAS | International Public Sector Accounting Standards |
| ISCS | Information System of the Customs Service of Serbia |
| ISDACON | Information System for Coordination of the Development Assistance to the Republic of Serbia |
| ISSAI | International Standards of Supreme Audit Institutions |
| IV | Initializing value |
| LoBS | Law on Budget System |
| LSGU | Local Self-Government Units |



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| LTPTA | Law on Tax Procedure and Tax Administration |
| MF | Ministry of Finance |
| MTDS | Medium Term Debt Management Strategy |
| NCTS | New Computerized Transit System |
| NPAA | National Programme for the Adoption of the EU Acquis |
| OECD | Organization for Economic Co-operation and Development |
| OLAF | European Anti-Fraud Office |
| PAR | Public Administration Reform |
| PDA | Public Debt Administration |
| PEFA | Public Expenditure and Financial Accountability |
| PFMRP | Public Financial Management Reform Program |
| PFM | Public Financial Management |
| PIFC | Public Internal Financial Control |
| PPO | Public Procurement Office |
| RESPA | Regional School of Public Administration |
| SAI | State Audit Institution |
| SBA | Stand-By Arrangement |
| SE | State-owned Enterprises |
| SEDI | Systematic electronic data interchange |
| SIDA | Swedish International Development Cooperation Agency |
| TA | Tax Administration |
| TADAT | Tax Administration Diagnostic Assessment Tool |
| TAIEX | Technical Assistance and Information Exchange Instrument of the European Commission |
| UNDP | United Nations Development Programme |
| USAID | U.S. Agency for International Development |
| VAT | Value Added Tax |
| WB | World Bank |

1 Introduction

The report on the implementation of the Public Financial Management Reform Programme 2016-2020 (hereinafter: Report on implementation of the Programme) for 2018 was prepared by the Ministry of Finance (MoF) of the Republic of Serbia with active participation of other ministries and institutions represented in the Working Group for preparation, monitoring and reporting on the implementation of the Public Financial Management Reform Programme (herein after: Programme Working Group) and Technical Secretariat of the Programme. A new methodology developed with the support of the SIGMA project contributed to the improvement of the Report in the previous period.

Taking into account how long ago the 2015 Programme was adopted, all relevant stakeholders agreed on the need to review the Programme and the Action Plan for the period 2019-2021, which will be the basis for reporting for 2019.



“Having achieved fiscal stability and established dynamic rates of economic growth, the Government of the Republic of Serbia focused on intensifying the initiated system reforms. The goal is to provide a structural balance of the economy, which will bring Serbia closer to the most economically developed countries and improve the quality of life for all citizens.”

Dr Siniša Mali, Minister of Finance



2 Executive summary

The Public Financial Management Reform Programme 2016-2020 (hereinafter: PFM RP) was adopted by the Government of the Republic of Serbia in late 2015 in order to achieve a better balanced and sustainable budget with a reduced debt to GDP ratio through stronger financial management and control and improvement of the audit control process. The PFM RP monitors the budget cycle as a whole so that it can enable better linking of the budget execution and different policies of the Government, and increase the transparency of these processes.

The public financial management is essential for the European integration process and is linked to a large number of negotiating chapters, most of which have been open in negotiations with the European Union (Chapter 5 – Public Procurement, Chapter 17 – Economic and Monetary Policy, Chapter 29 – Customs Union, Chapter 32 – Financial control and Chapter 33 – Financial and Budgetary Provisions), and within the monitoring of the implementation of the Stabilization and Association Agreement, it is discussed within the Special Group for Public Administration Reform. The current PFM RP is divided into six areas and comprises a total of 19 different measures.

Since the adoption of the PFM RP the greatest progress has been achieved in the following areas: improving the credibility of macroeconomic forecasts, better mid-term planning by budget beneficiaries, further improving programme budgeting, improving financial control of public funds through the adoption and implementation of the Internal Financial Control Development Strategy of the Republic of Serbia 2017-2020, improving coverage and quality of fiscal reports and reports on budget execution, further progress in public procurement, progress in the work of the State Audit Institution.

The key priority areas of the PFM RP in 2018 were to further improve the budget preparation process, increase the efficiency of revenue collection and the work of budget execution bodies, and enhance parliamentary oversight of public finances.

In May 2018, the Working Group for the Preparation, Monitoring and Reporting on the Implementation of the Public Financial Management Reform Program (hereinafter: the PFM RP Working Group) comprised of representatives of the Ministry of Finance and relevant line ministries and bodies of the Government, as well as the State Audit Institutions and the National Assembly began to revise the existing Action Plan and to draft a new one for the period 2019-2021. The PFM RP

Draft Action Plan for the period 2019-2021 was based on the analysis of the results achieved in the past two years, with special attention being paid to the adequate formulation of the indicators, realistic estimation of the timeframes, uniform schedule of activities, precise and reliable assessment of the necessary funds for the realization of all foreseen activities from different sources, as well as links with other strategic documents and requirements of the Law on Planning System. The draft revised Programme was discussed at the meeting on the “Dialogue on Public Financial Management” held on March 18, 2019, and will be adopted immediately upon receiving comments from the European Commission and taking them into account.

Besides the necessary amendments to the legal regulations and strengthening of administrative capacities, what is also necessary for the implementation of the reform steps for the efficient management of the public finance system is to invest in the improvement and linking of the existing IT capacities. As part of the implementation of the PFM RP Action Plan, IT capacities of the Ministry of Finance have been significantly improved, that is, the Budget Information System for the preparation of the budget has been developed, the Information System for Budget Implementation – ISIB has been improved, which enabled the integration of 247 indirect budget beneficiaries in the budget execution system, the Annual Reporting System on the state of financial management and control by the public funds beneficiaries has been developed and tested, as well as the Public Debt Management System, and a Unified Information System (UIS) for Planning and Implementation of Public Policies of the State Secretariat for Public Policy has been established.

The biggest challenges in the implementation of the planned reform measures in 2018, were, as before, mostly of technical nature, that is, the postponement of the implementation of the measures planned in the previous period due to delays in procedures for adopting strategic documents, legal acts and by-laws, and long internal and inter-institutional consultations and harmonization. A special challenge, as before, is the strengthening of administrative capacities in view of the limited possibilities for new employment and outflow of professional staff, but in 2018 the emphasis was primarily on trainings of the employees of the PFM RP pillars, especially in the context of the previously adopted strategic documents and legal regulations, as well as established IT systems planned in the PFM RP in the previous period. The process of reporting on the achieved results significantly improved analytical capacities of all stakeholders in the field of PFM RP, especially in the area of mutual coordination, but also led to more realistic planning of further steps, deadlines for implementation and necessary financial resources.

In addition to regular budget funding, significant support during the preparation and implementation of the Programme was provided by the European Commission (IPA projects, TAIEX, SIGMA) and FR Germany through the development cooperation project “Public Finance Reform and Agenda 2030” implemented by GIZ. Support was also provided by the World Bank, IMF, OECD and UNDP, as



well as the governments of Sweden, Switzerland, Great Britain, the United States, Slovakia, etc.

In 2019, the implementation of complementary assistance for public finance reform began as part of the sectoral budget support from IPA 2015. The cost estimate for public administration reform is presented in the Medium Term Expenditure Framework (MTEF) for public administration reform, which covers the area of public finance reform, within the implementation of sectoral budget support from IPA 2015, which is regularly updated. Taking into account the high financial burden of the reform, which was thoroughly assessed during the revision of the Programme Action Plan, additional support will be needed in the forthcoming period in order to successfully implement the Programme.





PILLAR I

SUSTAINABLE MEDIUM
TERM MACRO-FISCAL
AND BUDGETARY
FRAMEWORK

SUCCESSFUL
IMPLEMENTATION OF THE
FISCAL CONSOLIDATION
PROGRAM

MF CAPACITY
FOR MACROECONOMIC
FORECASTS HAS IMPROVED



2018 PRIORITIES:

Strengthening the administrative capacities of employees in the field of macroeconomic analysis and forecasts as well as customs officers.

Establishing the basis for introducing an efficient system for calculation and payment own and traditional means

PILLAR II

PLANNING AND
BUDGETING OF PUBLIC
EXPENDITURES

CIVIL BUDGET

MONITORING BUDGET
EXECUTION BY PERFORMANCE

GENDER RESPONSIVE
BUDGETING



2018 PRIORITIES:

Further improvement of the budget process and IT system.

Application and further elaboration of the adopted legal basis for capital investment planning.

PILLAR III

EFFICIENT
AND
EFFECTIVE
BUDGET

“YOUR TAXPAYER”
COUNTER

PUBLIC DEBT WAS
REDUCED IN THE PERIOD
2016-2018 BY 14.3%

PUBLIC E-PROCUREMENT



2018 PRIORITIES:

Continued implementation of the Tax Administration Transformation Programme

Development of public debt management software and upgrading IT system

Preparation of a new law on public procurement



PILLAR IV

EFFECTIVE FINANCIAL CONTROL

NEW PIFC STRATEGY OF
THE REPUBLIC OF SERBIA
2017-2020

EFFICIENT
IMPLEMENTATION OF IPA
PROJECTS THROUGH
IMPROVED AUDIT OF THE
EU FUNDS MANAGEMENT
SYSTEM

EXTENDING THE
COMPETENCE OF THE
BUDGET INSPECTION
AND AFCOS TO SUPPRESS
IRREGULARITIES AND
CONTROL BUDGET FUNDS
MORE EFFICIENTLY



2018 PRIORITIES:

Implementation of the principle.
Managerial accountability.
Implementation of the AFCOS
Strategy.

PILLAR V

ACCOUNTING, MONITORING AND FINANCIAL REPORTING

MODERNIZATION AND
EXPANSION OF THE
SYSTEM FOR BUDGET
EXECUTION (ISIB) AND
THE RINO SYSTEM

CENTRAL INVOICE REGISTER
ESTABLISHED



2018 PRIORITIES:

Strengthening the cash-based
accounting system in line with
the IPSAS standard.

PILLAR VI

EXTERNAL OVERSIGHT OF PUBLIC FINANCES

INCREASING THE NUMBER
AND QUALITY OF AUDIT
PRODUCTS, NUMBER OF
AUDITORS AND COVERAGE
OF AUDITEES

IMPROVED
PARLIAMENTARY
OVERSIGHT OF PUBLIC
FINANCES



2018 PRIORITIES:

Handbook on Quality Assurance
and Quality Control adopted
(Policies and Procedures).

Continual Meetings of the
Subcommittee and
Committee for reviewing SAI audit
reports.



3 Aggregate overview

Through measures of fiscal consolidation and structural reforms, the Government of the Republic of Serbia established stable public finances, as well as stable macroeconomic environment, with the established downward path of public debt. In February 2018, the Republic of Serbia successfully completed the fiscal consolidation program, which was the backbone of the three-year precautionary arrangement with the IMF. The goals that had been set up were reached before the deadlines through the successful implementation of the economic program. **Since July 2018, the new economic programme and Government reform efforts have been supported by the IMF Policy Coordination Instrument**, which calls for an advisory role for a period of 30 months, with no financial support due to the fact that fiscal improvements of a lasting character have been achieved. This instrument is a form of support to the continuation of the implementation of structural reforms aimed at maintaining the achieved macroeconomic and financial stability, creating employment and accelerating economic growth. The main goal of fiscal consolidation – curb the growth of debt and gradually reduce it, was achieved at the end of 2016. More importantly, during the years of fiscal consolidation, Serbia managed to achieve real GDP growth: 3.3% in 2016, 2% in 2017 and 4.3% in 2018.

As a result of fiscal consolidation measures, the percentage of public debt to GDP declined from the high 71.2% of GDP in 2015 to 54.3% of GDP in 2018, and public finances moved from the fiscal deficit to the fiscal surplus, which in 2017 amounted to 1.1% of GDP. In the course of 2018, a positive trend in fiscal developments continued, with a fiscal surplus of 0.6% of GDP, which is by 1.2% of GDP more than planned.

The fiscal consolidation along with a broader programme of related structural reforms launched in October 2014 set the frame and context of the PFM design and implementation progress. The objective of the fiscal policy in the next medium-term period is to achieve relatively low fiscal deficits of 0.5% of GDP, which enable a decrease in the percentage of public debt below 50% of GDP. Thanks to the fiscal consolidation measures, a fiscal space has been created, which will be used in 2019 to increase capital investment, eliminate crisis measures in pensions and salaries, increase the minimum pensions and increase public sector wages, and reduce the tax burden on labour. According to the medium-term macroeconomic forecasts, the cumulative growth rate in the period 2019-2021 will amount to 11.9% and will be determined by the growth of domestic demand. Serbian economy will grow at an average annual rate of 3.8%. At the same time, the public debt will be reduced, reform processes intensified, and fiscal discipline will be maintained.

The Government of the Republic of Serbia remains committed to becoming a full member of the European Union, which is its strategic goal, and during 2018, in the areas covered by the public finance reform, negotiations were opened in Chapters 33 – Financial and Budgetary Provisions and Chapter 17 – Economic and Monetary Policy. There is a constant effort to move towards the European Semester system with the participation of the Republic of Serbia in the European “Light” Semester for the Western Balkans and Turkey through the preparation of the Economic Reform Programme.¹

During the implementation of the public finance reform, **the analytical capacities of the Ministry of Finance and other relevant institutions involved in the reform have been significantly strengthened**. The introduction of new organizational solutions, new models and analytical instruments, software programs and staff trainings, as well as improved exchange and transparency of data gave the public better insight into the movement of public finances and the adoption of the EU standards in this area.

The identified challenges in the field of strengthening administrative capacities are limited possibilities for employment of new staff, as well as the outflow of employees. Another challenge is to invest in upgrading and linking IT capacities, sustainability and join the digitization process, which is a precondition for every modern public administration and the basis for efficient and effective management of the public financial system.



Main areas in which progress has been made so far during the implementation of the Programme and the accompanying Action Plan are related to: improved credibility of macroeconomic forecasts; better mid-term planning by budget beneficiaries; further improvement of programme budgeting, further improvement in the area of public procurement; improved coverage and quality of reports on budget execution and fiscal reports; improving the financial control of public funds through the adoption of the Strategy for Developing Internal Financial Control in the Public Sector in RS 2017-2020; improvement of the SAI work.

The main areas which were prioritized by the PFM RP in 2018 relate to the further improvement of the budget preparation process, increased efficiency of revenue collection and work of the budget execution bodies, and enhanced parliamentary oversight of public finances.

¹ The Initiative provides a framework for the coordination of the European Union's macroeconomic and fiscal policy. It allows the EU countries to discuss their economic and budgetary plans and monitor progress over the year. For more information, visit https://ec.europa.eu/info/strategy/european-semester_en

Progress achieved under Pillar I

The capacities of the Ministry of Finance for macroeconomic forecasting have improved in the foreseen deadline through strengthening the Sector for Macroeconomic and Fiscal Analysis and Projections with a new Group for the management of the EU's Own Resources. In order to improve macroeconomic forecasting, the Sector has developed the "Bridge" model for GDP projections.

Progress achieved under Pillar II

The Ministry of Finance has made significant efforts to improve the quality and transparency of the budget process. The most important improvement is the introduction of the programme budgeting in 2015, the development of monitoring and reporting on the effect of defined programmes, increased coverage of the state budget and budget documentation by including project loans into the 2017 Budget Law, the development of the Budget Information System (BIS) which ensures easier and more efficient way of entering financial plans of budget, as well as a simplified process of analysis and unification of the financial plans of budget beneficiaries. Transparency of the budget has been increased through the introduction of a legal obligation to publish programme information and report on the achieved performance by budget beneficiaries, as well as regular publication of "Citizen's Budget Guide for the Republic of Serbia" on the official website of the Ministry in 2015, 2017 and 2018², which provides the public with sufficient information on the structure of the budget, and ways of collecting and spending funds.

In 2018, the coverage of the national budget was additionally increased as 73 other indirect budget beneficiaries – institutions for execution of penal sanctions and cultural institutions had been integrated into the information system for budget execution (ISIB) since January, and the trainings were conducted for the successful inclusion of additional beneficiaries in the ISIB as of next year.

One of the identified PFM RP priorities is further improvement of public investment management. On June 27, 2017, the Government adopted the Regulation on the content, the manner of preparation and assessment, as well as on the monitoring of implementation and reporting on the implementation of capital projects, which is being implemented since 2018. The percentage of budget execution of capital projects in 2018 is around 85%. In March 2018, the Rulebook on the content, deadlines and procedure for submitting investment documentation for capital projects was adopted. Further harmonization of the legislative framework will follow, which will be the basis for the implementation of the

² <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2018/Gradjanski%20vodici%20kroz%20budzet%202018.pdf>



methodology, will be followed through the new capital management system – PIM system. In the following period, the priority is, of course, to further improve public investment management and perform an adequate analysis of the impact of the budget programmes.

In 2018, the process of strengthening the links between public policies and the medium-term expenditure framework was initiated, which will be further improved. The adoption of the Law on Planning System on April 19, 2018, is a prerequisite for the adoption of the Regulation on the Medium-Term Planning Methodology³. Co-ordination of the planning and programming of external assistance with the budget calendar remains a challenge, given that foreign governments have their own schedule for drafting budgets.

Progress achieved under Pillar III

In 2018, the trend of increasing the share of total regular tax collection against total tax revenue estimated in budget continued so in 2018 this percentage was 96.5%. The Tax Administration Transformation Programme was revised and a new Action Plan prepared for the period 2018-2023, providing for the separation of primary from secondary activities performed by the Tax Administration, which will be supported by specific organizational structures, business plans, management structures and reporting lines, the implementation of which is in progress. With the aim of establishing adequate links between different databases within the Tax Administration, and between the Tax Administration and other registration systems, progress has been made through establishing a new system for regular and enforced collection and tax accounting. The system is centralized and enables automated tax collection processes for Tax Administration employees (it enables the monitoring of the business process of collection from a warning to the collection of tax debt, in a uniform manner with the automation of each step in the business process). **The CEPOP⁴ system was set up for banning the change of registration data through the BRA while the tax control is in progress, and in the case of tax control by the Control Sector or the Tax Police, the registration data cannot be changed until the control is completed. Joint efforts have been made to increase voluntary compliance with tax regulations through amended legislation, capacity building and raising the level of understanding. The risk management system has been improved and intensive development of the integrated IT system has continued, with the aim of introducing electronic services for taxpayers. Modernization of the Customs Administration is underway in several important areas, including risk management and anti-corruption measures, as well as modernization of the Customs laboratory.** With the help of the project “Creating Conditions for Strengthening the Capacities of the Customs Laboratory”, the Customs

³ The National Assembly of the Republic of Serbia adopted on April 19, 2018 the Law on the Planning System of the Republic of Serbia (“Official Gazette of the Republic of Serbia”, No. 30/2018)

⁴ Central records of temporary restrictions on the rights of persons registered in the Business Registers Agency



Administration prepared the draft Action Plan with activities to be carried out in the future (legal framework of the Customs Laboratory, organizational and functional structure, necessary infrastructure, necessary equipment procurement and employee training) and defined requirements for the future premises of the Customs Laboratory. In 2018, 10 candidates employed in the Customs Laboratory successfully completed the training on the requirements of standards for work in the laboratory (standard SRPS ISO/IEC 17025:2006). The Customs Administration monitors the activity of improving anti-corruption measures through negotiating chapter 23.

The trend of reducing public debt to GDP ratio continued in 2018 and, according to preliminary data, the general government debt-to-GDP ratio at the end of December 2018 amounted to 54.5%, which is by about 14.3% points less than in 2016. In 2018, the development of public debt management software was completed, which will help improve the work of the Public Debt Management Agency. Progress was made in the development of **the securities market at the local level towards the introduction of a primary dealers system** in accordance with the 2018 IMF recommendations, which envisage a phased approach in this process. The software for public debt management will see further improvement, along with the development and implementation of the methodology for conducting an analysis of the long-term sustainability of public debt.

In the first half of 2018, the percentage of procurers announcing procurement plans at the Public Procurement Portal amounted to 88.2%. In the field of public procurement, significant progress was made through the development of primary and secondary legislation that contributed to the improvement of the transparency and efficiency of public procurement procedures. Further harmonization with the EU *acquis communautaire* is expected in 2019 with the adoption of the new Public Procurement Act, while the adoption of the Strategy for the Development of the Public Procurement System is planned for the period 2019-2022.

Progress achieved under Pillar IV

The greatest progress in the field of public financial control has been achieved with the adoption of a strategic framework in May 2017 – The Strategy of Public Internal Financial Control Development for the period of 2017-2020. The Central Harmonisation Unit (CHU) continues with providing trainings for budget beneficiaries, developing software and reporting in this area, and improves methodological manuals and guidelines in line with the best international practice. At the end of 2018, the CHU initiated the process of transferring trainings for the

FMC and IA to the National Academy of Public Administration (NAPA), which is still ongoing.

In 2018 the CHU carefully monitored the capacity of budget beneficiaries. At the central level, **until the end of 2017**, in 83 public funds beneficiary institutions, the internal audit was established with 296 classified internal auditor positions, out of which 243 were filled up. **The audit was established in all the 18 ministries and three mandatory social insurance funds.** At the level of the units of territorial autonomy and local self-governments, the internal audit function was established in 100, with 204 classified and 154 filled up internal auditor positions.

Irregularity management and anti-fraud coordination in dealing with the EU funds is relevant and important both for the Republic of Serbia and the European Commission. The Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020 (hereinafter: Anti-Fraud Strategy) was prepared and adopted in 2017. In amendments to the Law on Budget System of December 2018 in Article 2, Definitions, under item 47a, a definition of administrative checks was added⁵.

The Decree on Work, Authorization and Characteristics of the BI was adopted at the end of October 2017. In November 2018, the Rulebook on special elements of risk assessment, frequency of inspection supervision, i.e. check based on risk assessment and specific elements of the inspection supervision programme i.e. control in the scope of the budget inspection, was adopted and the capacity of the Budget Inspection further strengthened. A legislative framework for the reinstitutionalization of the Audit Office of the EU funds has been drafted.

Progress achieved under Pillar V

In accordance with the PFM RP, the scope and quality of reporting on the budget execution and fiscal reports have been improved. In accordance with the planned deadlines, the Treasury Administration made all necessary adjustments to business processes and organizational changes. It also provided technical conditions for the integration of new indirect budget beneficiaries into the system of national budget execution. **In 2018, an additional 73 indirect beneficiaries of budget funds, (institutions for the enforcement of penal sanctions, Solidarity Fund, Socio-Economic Council and cultural institutions) were integrated into the budget execution system for the treasury.** During 2018, preparations were made for 209 indirect budget beneficiaries – social welfare institutions, supervised by the direct budget beneficiary Ministry of Labour, Veterans' Affairs and Social Affairs, in order to integrate them into the budget execution system as of January 1, 2019. The integration of indirect budget beneficiaries into the information system

⁵ "47a) Administrative checks are the acts of verification, official controls, supervision and other measures to determine the nature of the irregularities in order to protect the financial interests of the European Union and, consequently, the financial interests of the Republic;"



of budget implementation – ISIB, enables better control over the settlement of liabilities within planned spending, which is one of the key objectives of the PFM RP, as well as improved quality of reporting on budget execution.

Monitoring of and reporting on outstanding liabilities were improved by expanding the RINO system to transactions between public enterprises, starting from January 2016. In order to improve the system for monitoring issued invoices and establish better control over the settlement of financial liabilities, **the Treasury Administration established the Central Invoice Register**, which contributes to more efficient monitoring of the takeover and settlement of liabilities within the deadlines defined by law thus reducing the number of late payments and improving planning and management of public funds. The Law on Deadlines for Fulfilment of Financial Obligations in Commercial Transactions for economic entities provides for an obligation valid from March 1, 2018 for the registration of invoices and other payment claims issued by creditors in commercial transactions between the public sector and business entities or between public sector entities, where public sector entities are debtors in the Central Invoice Register. The biggest challenge in this area is the establishment of adequate IT structures. It is necessary to improve both the capacity of the Treasury Administration of the Ministry of Finance and the capacity of budget beneficiaries so they could adapt to the new requirements and standards.

Progress achieved under Pillar VI

In order to ensure stable public finances, it is essential to provide effective external oversight as well as monitoring systems, including strict reporting and transparency rules.

Significant progress has been achieved in the work of the State Audit Institution (SAI) through increasing the number and quality of audit products, increasing the number of auditors and coverage of audit entities, implementing the audit guidelines, giving professional assurance to the National Assembly and citizens of the Republic of Serbia that public funds are spent efficiently, efficiently and economically. The Committee for Finance, State Budget and Control of Public Spending of the National Assembly develops procedures and mechanisms for quality inclusion in the implementation of the planned activities of the Programme. The State Audit Institution published 221 out of 247 planned audit products in 2018. In line with the changes to ISSAI standards, in accordance with the ISSAI 4000 – Business Performance Audit Standard, during 2018, the SAI adopted a special Manual for the regularity audit, as well as the Instructions for the preparation of reports on the regularity audit. Also, in 2018, the SAI started to implement separate regularity audits focusing on the areas in which the greatest risks were identified, i.e. where the greatest contribution could be made. Of the total number of published audit products, using the aforementioned manual, there are 58 reports on the audit of business regularity. At the beginning of 2018, the

Policy and Action Plan for the introduction and implementation of standards related to audit quality were developed. In 2018, the Manual for Quality Assurance and Quality Control was adopted, by which the policies for quality assurance and quality control were established (Manual, part 1) and procedures for quality assurance and quality control adopted (Manual, part 2).

The Committee on Finance, State Budget and Control of Public Spending of the National Assembly established the Subcommittee for reviewing the audit reports performed by the SAI in 2015, and the first session with new members was held in September 2016. In order to improve the cooperation between these two independent institutions, in August 2017, the Guidelines for reviewing the SAI report on the audits of public funds beneficiaries were adopted. In 2018, the Committee continued with activities for reviewing the SAI report in local self-government units in order to promote accountability, transparency and efficiency in spending public funds and raise awareness of the importance of the control function of the National Assembly. The Committee, together with representatives of the State Audit Institution, held two sessions outside its headquarters – in Subotica and Leskovac, where SAI reports were presented.

The implementation of the PFM RP was successful. Considering that the Programme was prepared in 2015 with an ambitious Action Plan covering the entire duration of the Programme and that the implementation of the largest number of measures and activities was planned in the first two years of the PFM RP, it became clear that the revision of the Action Plan and the Programme for the period 2019-2021 could further improve the quality of the document by adding new elements or revising the existing ones, and extending the Action Plan for a year, with a key effort to be made during 2018. The changes are mainly focused on activities update, proper choice and better definition of indicators, as well as a reliable cost estimate.





4 Pillar I

Sustainable medium-term macro-fiscal and budgetary framework

Measure 1

TO IMPROVE THE CREDIBILITY OF MACROECONOMIC FORECASTING

Key results achieved so far

- In the reporting period, in order to strengthen the capacity for conducting long-term fiscal sustainability and manage EU own resources, employees at the Ministry of Finance attended numerous training sessions, such as training in fiscal sustainability (with a special focus on medium-term objectives, fiscal framework and aging of the population, etc.); TAIEX workshop “Establishing the System Of Own Traditional Resources”; Training for traditional EU own resources – “Experiences from the Republic of Croatia”, training for statistical-econometric analyses.

Progress achieved in 2018

For the needs of strengthening the administrative capacities of the Customs Administration for the implementation of obligations from Negotiating Chapter 33, i.e. the preparation of the first simulation of reporting on the EU’s traditional own funds, a workshop was held from November 14 to 16, 2018. With the technical assistance of the GIZ and representatives of the customs administration of Croatia, 16 customs officers prepared the Annex of the Questionnaire after the workshop, which refers to the assessment of the ability of the Republic of Serbia to fulfil the administrative requirements in the field of the EU own resources. In 2018, the Director of the Customs Administration set up a technical working group for the implementation of obligations under Chapter 33.

Financing of the measure

The conducted trainings were financed by GIZ PFR project.

Key challenges

- Strengthening the administrative capacity of the Customs Administration to manage the traditional own funds.

Next steps

The existing capacities are adequate for the preparatory phase of establishing a system of coordination and management of the EU own resources. By the date of accession to the European Union, the Republic of Serbia will continue to strengthen its administrative capacity in order to establish an efficient system for the calculation and payment of own funds. In 2019, it is planned to start the activities of analyzing the legal framework and administrative capacities for the full implementation of EU regulations for traditional own funds, as well as to launch activities to implement trainings of customs officers for managing the EU's traditional own funds.



5 Pillar II

Planning and budgeting of public expenditures

Measure 2

TO IMPROVE THE COVERAGE OF THE NATIONAL BUDGET

Key results achieved so far

- Improved coverage of the national budget provides a better basis and more reliable information on the budget execution, on the basis of which the Budget Sector of the Ministry of Finance more precisely plans expenditures of indirect budget beneficiaries;
- Additional indirect budget beneficiaries are included in the budget execution system of the Treasury Administration;
- Significant progress has been made by including project loans into the 2017 Law on the Budget, as well as by preparing the financial plans of public companies simultaneously with the RS budget.

Progress achieved in 2018

As of January 1, 2018, another 73 indirect beneficiaries of budgetary funds (institutions for the execution of penal sanctions, Solidarity Fund, Socio-Economic Council and cultural institutions) were integrated into the Information System for Budget Execution – ISIB. A total of 320 have been integrated so far since 2016.

During 2018, preparations and trainings were conducted for 209 indirect budget beneficiaries (social protection institutions) for the purpose of their integration in the ISIB from January 1, 2019.

Financing of the measure

Activities are financed from the budget of the Republic of Serbia and supported by the IMF and the World Bank.

Key challenges

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

Next steps

In 2019, the Ministry of Finance will continue to expand the coverage of indirect budget beneficiaries, including the remaining beneficiaries who are currently outside the information system for budget execution, that is, in 2019, social protection institutions and indirect beneficiaries of the Ministry of Labour, Employment, Veteran and Social Issues. In 2019, the Treasury Administration of the Ministry of Finance will include 209 indirect budget beneficiaries (Social Protection Institutions) in the Information System for Budget Execution.



Measure 3

TO FURTHER IMPLEMENT MULTI-ANNUAL PROGRAM BUDGETING ACROSS ALL LEVELS OF GOVERNMENT

Key results achieved so far

- The structure of the programme budget of the budget beneficiaries with the Instructions for the preparation of the programme budget, issued by the Ministry of Finance, the Budget Sector, is increasingly harmonized, as follows:

| Performance indicator | 2015 | 2016 | 2017 |
|--|------|------|------|
| Percentage of compliance of programme structures of budget beneficiaries with the Guidelines for the preparation of the Programme Budget | 61% | 82% | 85% |

- The guide for programme budgeting has been improved;
- The program structure has been upgraded;
- Performance-based reporting started in 2017;
- The Budget Information System (BIS) for the preparation of the budget was developed in 2016 and successfully tested in 2017;
- The Citizens' Budget has been prepared and published;
- The transparency of the budget has been extended by introducing a legal obligation to publish programme information and report on the achieved performance on the website of the budget beneficiaries.

Progress achieved in 2018

In 2018, in co-operation with the Human Resources Management Service and the National Academy of Public Administration, trainings were held for budget beneficiaries in the field of programme budgeting and reporting on programme performance, and the capacity of civil servants for programme budgeting and reporting on the impact of the programme was enhanced.

Financing of the measure

The 2018 Law on the Budget of the Republic of Serbia envisaged funds in the amount of RSD 3.5 million for the development of a module for monitoring and performance reporting. These funds were not spent since public procurement had not been carried out. Therefore this poses a key challenge in the coming period.

Key challenges

Successful execution of a public procurement procedure for improving the system for budget preparation (BIS) through the development of new modules.

Next steps

- Improve the IT system/develop a new module for monitoring and reporting on the performance of budget programs;
- Strengthen the capacity of the Budget Sector and budget beneficiaries in the area of the programme budget;
- Develop a new methodology for managing public investments.



Measure 4

TO IMPROVE CAPITAL PROJECTS PLANNING

Key results achieved so far

- On June 27, 2017, the Government adopted the Decree on the content, manner of preparation and assessment, as well as monitoring the implementation and reporting on the implementation of capital projects;
- The percentage of budget execution of capital projects in 2016 was 74.5%.

Progress achieved in 2018

The Decree on the content, manner of preparation and assessment, as well as monitoring the implementation and reporting on the implementation of capital projects became effective on January 1, 2018.

In March 2018, the Rulebook on content, deadlines and procedure for submitting investment documentation for capital projects was adopted.

The percentage of budget execution of capital projects in 2018 was 85%.

Financing of the measure

The cost of activities implemented under Measure 4 comprises regular activities, i.e. salaries of employees in the Unit for the evaluation of capital projects of the Budget Department within the MoF. In addition, the USAID technical support was provided for the development of the Decree.

Key challenges

In the following period, it is planned to establish a methodology and harmonize legal regulations. At the beginning of February 2019, the World Bank expert team gave a proposal for a new methodology for managing capital investments. In mid-February, the Working Group on Methodology Harmonization was formed, which aims to harmonize the methodology proposed by the World Bank with the existing domestic methodological solutions and practices.

Next steps

- The Decree on Capital Projects and Legislative Framework will be harmonized with the new methodology;
- Following the adoption of a unified, harmonized methodology, the Decree on Capital Projects will be revised;
- During the first half of 2019, the basis for the creation of the information system for managing capital projects (PIMIS) will be set up, and afterwards developed;
- In the second half of 2019, strengthening of organizational capacities within the Ministry of Finance will be undertaken, which would deal with the management of capital projects and provide technical support to the Commission for Capital Investments.



Measure 5

TO IMPROVE BUDGET PLANNING

Key results achieved so far

- Sectoral Medium-Term Expenditure Frameworks for the sector of public administration reform and fields of education and integrated border management were developed;

Progress achieved in 2018

By adopting and entering into force of the Law on Planning System of the Republic of Serbia, significant progress was made in the implementation of Measure 5, which represents a good basis for the timely completion of the remaining activities. The Law on Planning System of the Republic of Serbia became effective on October 29, 2018.

The public procurement procedure of the Republic Secretariat for Public Policies (RSPP) was successfully implemented for the purpose of developing and implementing the Single Information System for Public Policy Planning and Monitoring (SIS). The SIS became operational for entering public policy documents and reporting on them on January 1, 2019. The RSPP, in cooperation with COMTRADE, organized trainings on the use of SIS for trainers (December 14, 2018) and state administration bodies (December 21, 2018).

The draft decree on the methodology for the preparation of medium-term plans was submitted to the state administration bodies at the end of October 2018 to obtain their opinion. All the opinions of the state administration bodies were obtained and the draft Decree was, accordingly, further improved.

Financing of the measure

The cost of the activities implemented under Measure 5 includes regular national budget expenses. Additional funds have been provided through IPA 2011 Project on Reforming Government Policy Coordination amounting in total EUR 1.860,400, the IMF support, United States Agency for International Development (USAID) – Business enabling project (BEP), and GIZ Public Administration Reform Project. In order to establish a single information system for planning and monitoring the implementation of public policies that will comprise the Action Plan for the implementation of the Government's programme public policy documents, the information system for planning and reporting on the work of the government and medium-term plans, the amount of RSD 15,492,959.58 was allocated in the 2018 national budget.

Key challenges

Preparation of a methodology for the development of the sectoral medium-term expenditure framework and the development of a medium-term expenditure framework for the two new sectors.

Next steps

- The basis for linking public policies with the medium-term expenditure framework should be established by the end of 2019;



- Establish the operability of the Single Information System for Planning and Monitoring the Implementation of Public Policies in the segment related to the entry of medium-term plans on June 1, 2019, since medium-term planning obligors are obliged to start drafting a medium-term plan in accordance with the Law on the Planning System of the Republic of Serbia beginning with the mid-term plan for 2020;
- Conduct training of civil servants for medium-term planning in cooperation with the National Academy for Public Administration.

Measure 6

TO IMPROVE OPERATIONAL CAPACITIES FOR PUBLIC INVESTMENT COORDINATION AND BUDGET PLANNING

Key results achieved so far

- Strengthened administrative capacity of the Budget Department of the Ministry of Finance, which achieved the employment rate of 70% of the classified jobs;
- Improved analytical skills of civil servants for strengthening the capacity for planning and budgeting strategic and operational plans.

Progress achieved in 2018

Within the reporting period, continuous efforts were made to strengthen the administrative capacity of the Budget Department of the Ministry of Finance.

During 2018, the PPS in cooperation with the NAPA conducted trainings on the following topics: analysis of the effects of regulations – the way to achieve the quality regulations, action plan for the implementation of the government's program, strengthening analytical skills, public policies – creation, implementation and effects analysis, management of public policies, development of public policy documents, monitoring of implementation and evaluation in the public policy management process, training of IT experts for the use and administration of and training other users for using the single information system for planning and monitoring the implementation of public policies, and training of the state administration bodies for using, administrating and training others for work in a single information system for planning and monitoring the implementation of public policies (SIS).

In this regard, during 2018, 18 trainings were held and a total of 236 civil servants and managers were trained.



Financing of the measure

Trainings for the Budget Department were organized and financed by the USAID and GIZ.

Key challenges

Finding ways to reduce the fluctuation of employees in the Budget Department and to retain trained and quality employees.

Next steps

- It is expected that in the following period the appropriate steps will be taken in order to amend the decree on principles for internal organization and classification of jobs in ministries, special organization and government services. The purpose of this change is to create preconditions for introducing the obligation of the state administration authorities to organize the study and analytical work of drafting public policy documents and medium-term planning. This will lead to better public policies planning and organization of adequate trainings, which represents a prerequisite for the full implementation of this measure.
- Prepare and establish PIMIS (a new Information System to assist in the management of public investments).
- Establish the operability of the Single Information System for planning and monitoring the implementation of public policies in the segment relating to the entry of medium-term plans on June 1, 2019.
- Strengthen the capacity of the Budget Department – Budget Sector of the Ministry of Finance in order to implement the new methodology for public investment management.
- Develop the online Citizens' Budget.



6 Pillar III

Efficient and effective budget execution

Measure 7

TO IMPROVE REVENUE COLLECTION

Key results achieved so far

- Voluntary tax collection in 2017 reached the level of 96% of total (voluntary) tax collection out of total tax income assessed in the national budget;
- During 2017, the Tax Administration Transformation Programme was revised and an Action Plan for the period 2018-2023 was prepared;
- The Transformation Committee adopted the Strategy for providing taxpayer services in December 2016;
- In August 2017, the Department for Strategic Risks and the Department for Providing Services to Taxpayers and Education has been formalized, providing support and incentives for taxpayers to settle their taxes in line with the law;
- The risk management system has been improved in accordance with the TADAT recommendations.

| Performance Indicator | 2014 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|---------------|
| Percentage of share of total regular tax collection against total tax revenue estimated in budget | 85% | 86% | 96% | 96.5% |
| | 2014 | 2015 | 2016 | 2017 |
| Increase in revenue collection (collected by the Customs Administration) as % of GDP | 9.56% | 9.63% | 9.81% | 11.17% |

- In 2017, the planning documents for the development of the customs service by 2020 were adopted: the Development Plan of the RS Customs Service for the period 2017-2020 and the Action Plan for the Implementation of the Development Plan of the RS Customs Service.⁶

⁶ Due to the conducted revision of GDP by the Statistical Office, the value of the series has changed, without changing the expectations of the indicators <http://www.mfin.gov.rs/pages/article.php?id=13484>



- The ERIAN⁷ system for the control of transit procedures of national (NT) and common transit (T1, T2, T-), carried out through NCTS (New Computerized Transit System) has been in place since February 2016.

Progress achieved in 2018

In 2018, the trend of increasing the share of regular tax collection in relation to the total tax income assessed in the budget continued, and in 2018 this percentage amounted to 96.5%.

The Tax Administration Transformation Programme provides for the separation of primary and secondary activities performed by the Tax Administration, which will be supported by specific organizational structures, business plans, management structures and reporting lines. External consultants were engaged to analyze work processes and resource requirements for each business flow, develop appropriate organizational and management structures, and provide guidelines for the implementation of new arrangements. The analysis phase of the project “Differentiating primary from secondary activities” with the PricewaterhouseCoopers (PwC) consulting house was completed and the final report of the PwC was adopted on January 15, 2019, at the XV Committee for the Implementation of the Transformation Programme. Consolidation of the basic functions of the Tax Administration on a small number of locations is also a reform objective within the Transformation Programme. The Tax Administration appointed 37 branches that would be retained in the first round of the consolidation of primary activities. The implementation plan for the organizational transformation of the Tax Administration of the Republic of Serbia was developed for 2018 and the first quarter of 2019, which envisaged a new business network and the organization of the Central Office and branches. The next phase is the unification of basic tax functions in smaller organizational units and is planned by the end of June 2019. It is envisaged that the consolidation process will continue until 2023.

During the first half of 2018, a pilot project was conducted for the formation of large control teams by merging control units on the field. In May 2018, an analysis of the results of the work of field control inspectors was carried out. The analysis of the work of the control for the first 6 months of 2018 and the success rates of controls based on the Tax Compliance Plan for the year 2018 is underway. An analysis was carried out to assess the feasibility of the specialization of inspectors by activities and feasibility of specialization of inspectors by tax forms.

In order to establish adequate links between different databases within the Tax Administration and between the Tax Administration and other registration systems, the following was achieved:

⁷ ERIAN is an expert system – module whose general goal is to ensure on-line evaluation of declarations processed within the declaration process system according to the specifications of a model (profile) of risk, drafted by risk analysts in ERIAN central archive of risk profile.



- **The new system for regular and enforced collection and tax accounting was established.** The system is centralized and enables automated taxation processes for employees of the Tax Administration. The system provides an opportunity for the business process of collection to be monitored from issuing a warning to the collection of tax debt in a uniform manner with the automation of each step in the business process. At the end of 2018, the application was released in production in all branches of the Tax Administration, so now all the billing and accounting activities are performed through the application, which makes the process of collection, from issuing the warning to other steps, much faster, and at the same time the work has been made much easier for branches, especially in those segments which previously took most time, such as adopting reprograms, etc. Also, the new application will enable recording the state of the debt in a more correct way, i.e. the relocation of the debt of certain taxpayers into the accounting records will be performed much more efficiently. The impact of the new application will be seen in the future.
- **The CEPOP⁸ system has been fully established for banning the change of registration data through the BRA while tax control is in progress.** The system does not allow changing the registration data in the case of tax control by the Control Department or the tax police until the control is completed.

By forming a separate Sector, which provides services, an organizational and functional framework has been created to help and stimulate taxpayers to settle their tax liabilities in line with the law. The establishment of the Sector for providing services to taxpayers exactly shows the clear intention of the Tax Administration to develop a client-like and fair relationship with taxpayers. The establishment of the Sector introduced the practice of visiting newly registered taxpayers in order to explain to them their rights and obligations.

In cooperation with the Ministry of Education, fiscal education of young people through “Tax lesson” was carried out in elementary schools in order to develop tax culture. “Tax lesson” was attended by around 1,500 students in 16 primary schools in Serbia.

In addition, the Sector prepared educational material in the form of printed brochures and flyers that provide taxpayers with all the necessary information in order to raise the level of voluntary compliance with tax regulations.

Due to the great success of the first cycle of “Take the Receipt and Win a Prize” sweepstake, which took place in the first quarter of 2017, when almost 40% of citizens participated and more than 85 million receipts and slips were sent, the Government of Serbia decided to organize together with NALED a new round of “Take the Receipt and Win a Prize 2018” sweepstake. The sweepstake is organized as part of a wider media education campaign as 2018 becomes the year of fight against informal economy, and is one of the key measures of the National Programme for Reducing Informal Economy. During the sweepstake, citizens sent 107,322,950 fiscal receipts and slips, or 10,732,295 envelopes. In May 2018, 41% of the population took part in the prize competition (24% in person, 17% through

⁸ Central records of temporary restrictions on the rights of persons registered in the Business Registers Agency

family members), and this sweepstake is among the most successful in Europe.

Over the duration of the sweepstake, citizens showed readiness to report cases of bypassing regulations. Data by Tax alarm show that citizens filed 13% reports more in the period from January to April 2018 than in the same period of the previous year. The goal was to raise the awareness of citizens and the economy about the importance of reducing informal economy, stimulating non-cash payments as an instrument to reduce informal economy, strengthening the tax culture and motivating citizens and the economy to comply with regulations.

At the counter “Your Taxpayer”, citizens and taxpayers, in direct contact with tax officials, can get all kinds of different information regarding the application of tax laws, assistance in filling in tax returns, professional assistance in completing different types of requests, etc. In 2018, a total of 922,792 services were provided, most of which relate to the application of regulations, assistance in filling in tax returns, forms, requests, etc., clarification of decisions/warnings, issuing analytical cards of public income, receiving requests for issuing certificates about paid tax.

In 2018, with the support of the project “Public Finance Reform and Agenda 2030” implemented by the German Development Agency, the following trainings were conducted:

1. “Implementation of IFRS in Accounting for Agriculture” for 189 participants;
2. “Basic Training in Accounting” for 92 participants;
3. “Didactic Training” for 13 participants;
4. “Transfer Prices” for the Large Taxpayers’ Office employees for 33 participants;
5. “Methods of Investigating Tax Offenses” for 51 participants in tax police.

In 2018 Progress Report, within the negotiating chapter 29 – Customs Union, The European Commission noted that Serbia is at a good level of preparation in the area of customs union and that some progress has been made by streamlining some customs processes. In the coming year, Serbia should first of all further upgrade the customs processing system by integrating risk management and further improve the IT system of the customs service to enable its integration with the EU system.⁹



⁹ EC report for 2018, [http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji\(1\).pdf](http://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_o_srbiji(1).pdf), p. 92



As part of the implementation of the project “Creating conditions for capacity building of the Customs Laboratory” of the Customs Administration, a draft Action Plan was prepared with activities to be carried out in the future (legal framework of the Customs Laboratory, organizational and functional structure, necessary infrastructure and investments, procurement of equipment and training of employees) and requirements for the future premises of the Customs Laboratory have been defined. In 2018, 10 employees of the Customs Laboratory successfully completed a 2-day training course on requirements of standards for working in the laboratory, i.e. interpretation of the requirements of SRPS ISO/IEC 17025:2006 standard.

Under the measure “Improving Anti-Corruption Measures”, which is being monitored through the Action Plan for Negotiation Chapter 23 – Judiciary and Fundamental Rights, the activities of strengthening the capacities of the Customs Administration were continued. In October 2018, by the Ministry of Internal Affairs – Department of Internal Control organized a training in corruption risk analysis was held, and one of the participants was an employee from the Internal Control Department of the Customs Administration.

Financing of the measure

The necessary funds for the implementation of the activities of the Tax Administration were revised during the revision of AP PFM RP for the period 2019-2021.

Based on the adopted final financial report for the project “Creating Conditions for Strengthening the Capacity of the Customs Administration Laboratory of the Republic of Serbia” – the total cost is estimated at EUR 225,000 (95% EU financing and 5% national co-financing) in IPA 2013 contract. The trainings were organized by GIZ and TAIEX.

Key challenges

- In accordance with the adopted Action Plan of the Tax Administration Transformation Programme for the period 2018-2023, in order to continue the successful transformation of the Tax Administration and effective control over the main elements of the tax system and efficient risk management for basic tax forms, it is planned to complete the first consolidation phase by June 2019 and reduce the number of branches;
- The main condition for the full implementation of the ERIAN system for all customs clearance procedures by the Customs Administration is the introduction of automated systems of import and export of AIS and AES and their further integration with the ERIAN system. The AIS and AES system has been implemented through IPA 2013 project since June 2017.
- Successful collection of revenues and maintaining a high level of customs duties collection also means continuous improvement of the customs debt security process.

Next steps

- The Tax Administration is fully committed to continuing the implementation of the Tax Administration Transformation Programme, identification of the basic activities of the Tax Administration and separation of secondary activities into specific areas of work. The planned activities of the Programme require a new organizational structure of the Tax Administration, in which the primary and secondary activities will be separated;
- By July 2019, it is envisaged to consolidate the functions of administering basic taxes at fewer locations (37) and continue the merger process to a maximum of 12-14 locations by 2023;
- It is expected that by 2021 the ERIAN system will be integrated with the entry record – the output of empty freight motor vehicles, which is recorded in the Customs Information System (CIS);
- It is planned to prepare a proposal for the organizational and functional structure of the Customs Laboratory in accordance with the recommendations of the project “Creating Conditions for Strengthening the Capacity of the Customs Administration Laboratory of the Republic of Serbia”. It is expected that the models of the modernization of the Customs Laboratory will be developed by 2021;
- Organize specialized trainings, such as advanced trainings for the methods of customs anti-corruption investigations of corruption, as well as joint trainings, that will include, apart from customs officers, employees of the Prosecution Office and Courts in the field of criminal charges, methods of evidence collecting in pre-criminal proceedings with an emphasis on corruption in the customs. By the end of March 2019, training organized by the GIZ project “Public Finance Reform and Agenda 2030” will take place at the University of Criminal Investigation and Police Studies, which will be attended by ten employees of the Internal Control Department of the Customs Administration.

Measure 8

TO IMPROVE COMMITMENT CONTROL AND CASH MANAGEMENT

Key results achieved so far

- At the end of 2017, amendments were made to the Rulebook on the execution system of the budget of the Republic of Serbia and the new information system for the execution of the budget (ISIB) was released into production on January 1, 2018, which created the conditions to integrate new indirect budget beneficiaries (IBB) into the budget implementation system;
- Financial planning for all direct and indirect beneficiaries of budget funds,

integrated into the system for the execution of the national budget, has been upgraded and taken up to a higher level, and the competent direct budget beneficiaries (DBB) were enabled to allocate and control the appropriations of their indirect beneficiaries. Consequently, the planning of cash flows has been improved by the fact that DBB can, based on the needs of the IBB, allocate funds from the appropriation of one indirect beneficiary to the appropriations of another indirect beneficiary, within the appropriations determined by the Law on the budget. In this way, DBB have been provided with better control of plans for the execution of the budget and determined quotas of their indirect beneficiaries, as well as commitments and realization of commitments, which led to improved planning for all beneficiaries.

Besides the Treasury, these activities are carried out by direct beneficiaries of budget funds and their indirect beneficiaries of budget funds.

Progress achieved in 2018

All planned activities had been carried out in the previous period, so there were no additional activities in this area in 2018.

Financing of the measure

There were no additional financing costs.

Measure 9

TO IMPROVE CAPACITIES FOR PUBLIC DEBT MANAGEMENT

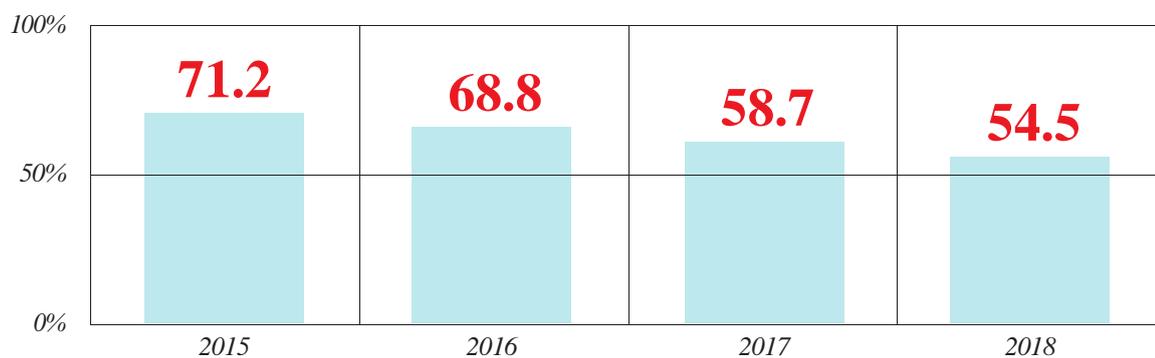
Progress achieved so far

- In 2017 only, public debt share in GDP dropped by about 10 percentage points;
- The capacities of Public Debt Management (PDM) have been enhanced by strengthening human capacities, learning from best practices experiences and public debt management software;
- Great progress has been made in increasing the average maturity of RSD government securities and decreasing the cost of funding, which reduced the exposure to the refinancing risk;
- The Government of the Republic of Serbia established the Working Group (WG) for ISDA negotiations in 2017. Members of the WG are representatives of the Ministry of Finance and the National Bank of Serbia, and they cooperate with legal advisors in the negotiations on the ISDA agreement.

| Performance indicator | 2016 | 2017 | 2018* |
|------------------------|-------------|-------------|-------------|
| Public debt/GDP (in %) | 68.8 | 58.7 | 54.5 |

*Preliminary data and their indirect beneficiaries of budgetary funds.

Percentage of public debt to the GDP of the Republic of Serbia in the period from 2015 to 2018



| Performance indicators | 2015 | 2016 | 2017 | 2018 |
|--|------------|------------|------------|------------|
| Annual cost of servicing public debt (interest payments) as share of GDP | 2.9 | 2.8 | 2.5 | 2.1 |
| Average Time of Maturity on RSD Debt (years) | 2.1 | 2.2 | 2.4 | 2.4 |

Progress achieved in 2018

The trajectory of the public debt of the Republic of Serbia has been reversed since 2016. The trend of public debt to GDP ratio continued in 2018 and, according to preliminary data, percentage of public debt to GDP was 54.5% at the end of December 2018, which is about 14.3% percentage points less compared to 2016.

In 2018, the development of public debt management software was completed. The software displayed certain defects which are currently being repaired in order to make the solution fully functional. The introduction of the software will help to overcome operational problems in the work of PDM and improve its analytical capacities.

Another important step towards further development of local government securities market is to introduce a primary dealer system. The IMF mission, which took place in April, May and October 2017, carried out the analyses of the current situation regarding the introduction of the primary dealer system. The IMF recommendations submitted in January 2018 envisaged a phased approach in the introduction of primary dealers at the auctions of RSD government securities.



In 2018, after the negotiations between the Negotiating Team of the Republic of Serbia and the commercial banks, the Government of the Republic of Serbia adopted drafts of the ISDA Framework Agreements and Annexes, which were signed with eight leading foreign commercial banks with adequate credit rating.

The Decree on content, preparation method and assessment, as well as monitoring of implementation and reporting on the implementation of capital projects, also includes monitoring the implementation of projects financed from the loan. The adoption of the Regulation improves the monitoring system and strengthens the coordination of activities within the Ministry of Finance.

Financing of the measure

In total, USD 300,000.00 was invested in the strengthening of the PDA capacity. Additional 125,000.00 USD is needed in order to successfully implement all activities envisaged under this measure by 2020. Most of the funds came from the Swedish International Development Agency (SIDA), implemented by the UNDP. Funds required for further steps must be allocated from the national budget, EU support (including SBS and complementary assistance) and support from other bilateral donors.

Key challenges

The biggest implementation challenges under the measure are:

- Securing funds for the implementation of all activities;
- Global risks related to the financial market, even though those are outside of the direct control of the PDA, MoF or Government of Serbia, but may influence the ability to reach the planned targets.

Next steps

- Further activities will be undertaken on developing the methodology for conducting an analysis of public debt sustainability in order to finalize it by 2020 through the upgrade of the IT system.
- Further activities are needed to prepare regulations and accompanying acts to define and enable the introduction of the system of primary dealers in the securities market, and with constant cooperation with the IMF, in order to achieve the greatest possible effects on the development of the securities market and minimize the risk.



Measure 10

TO IMPROVE PUBLIC PROCUREMENT LEGISLATION AND PROCEDURES

Progress achieved so far

- Development of primary and secondary legislation has led to increased transparency and efficiency of the procurement procedures;
- All the preconditions for the implementation of the activity aimed at “implementation of the institutional strengthening of the Public Procurement Office in order to increase its operational capacity”, as the only activity that had not been realized, were fulfilled.
- Transparency in public procurement planning has been increased following the changes in the legislative framework adopted in 2015 by introducing the obligation of the contracting authorities to publish public procurement plans at the Public Procurement Portal.

| Performance indicator | 2015 | 2016 | 2017 | 2018 | 2018 ¹⁰ |
|---|------|------|------|------|--------------------|
| Share of Contracting Authorities (CA) that published procurement plans on PPP per all CA announcing procurement on the Portal | N/A | N/A | 90% | 89% | 88% |
| Average time to perform open procurement procedure (in days) | 77 | 68 | 61 | 63 | 62 |
| Share of terminated procurement procedures in total number of procurement procedures | 13% | 11% | 10% | 10% | 8% |
| Average number of bids per procurement procedure | 2.6 | 2.9 | 2.9 | 3 | 2.5 |

- Partial harmonization of the national legislation with the relevant EU directives was carried out in 2015, and further harmonization is expected by mid-2019;
- Progress has been made in increasing the technical capacities of the entities in order to increase the efficiency of public procurement procedures
- A target number of 2,300 certified public procurement officers has been achieved;
- The number of discontinued procedures was reduced from 13% in 2014 to 10% in 2017, and in the first half of 2018, it was 8%.

¹⁰ Report on the work of the Public Procurement Administration for the first half of 2018, retrieved at: <http://www.ujn.gov.rs/ci/izvestaji/>

Progress achieved in 2018

In the first half of 2018, the percentage of contracting authorities who publish procurement plans at the Public Procurement Portal was 88.2%.

The new Rulebook on internal organization and job classification in the Public Procurement Office, which the Government of the Republic of Serbia approved by Conclusion 05 no. 110-34/2018 of January 11, 2018, and Conclusion 05 no. 110-12885/2018 of January 10, 2019, increased the number of classified jobs in the Public Procurement Office to 38 and more functional arrangement of basic and narrow internal units within the Public Procurement Office was carried out. Further institutional strengthening of the Public Procurement Office, by increasing the number of employees, will continue with the implementation of the recruitment process (recruitment of civil servants, internal competition, public competition, etc.) in the following period.

The capacity to manage public procurement procedures has been further enhanced by the certification of a total of 4,236 public procurement officers, ending December 31, 2018, which demonstrates an increase of over 80% above the target value.

In 2018, five workshops were held on various topics, both for representatives of the Public Procurement Office and other decision makers in the public procurement system. The largest number of workshops was organized with the support of the project “Support to Further Strengthening of the Public Procurement System in the Republic of Serbia” (IPA). By the end of 2018, nine trainings were held for representatives of police officers, prosecutors and judges in the field of public procurement. The training covered the subject of capacity building for more efficient investigation and sanctioning irregularities in public procurement procedures by the judiciary.

The Public Procurement Development Strategy 2014-2018¹¹ serves as an appropriate strategic framework for the long-term development of the public procurement system. Currently, the Report on the Implementation of the Action Plan for 2018 is under preparation, as well as the drafting of the new Public Procurement Development Strategy 2019-2023, which was discussed at a round table held on December 20, 2018, in Belgrade.

Financing of the measure

It has been planned to invest a total of RSD 40.7 million or EUR 331,000 in the implementation of activities under Measure 10. The implementation of this measure is in part supported by the IPA project “Support to Further Strengthening of the Public Procurement System in the Republic of Serbia”. The value of the project is EUR 2,234,920.00. The part of the project refers to strengthening the capacities of key institutions in the public procurement system (one of the activities under Measure 10).

¹¹ Strategy for the Development of Public Procurement in the Republic of Serbia 2014-2018 and the Action Plan for the Implementation of the Public Procurement Development Strategy for 2014-2015, adopted on October 30, 2014 Action Plan for the Implementation of the Public Procurement Development Strategy in the Republic of Serbia for 2018, adopted by the Government's Conclusion RS 05 no: 404-12966/2017 of December 28, 2017 (Official Gazette of RS, no.120/17)

Key challenges

The biggest implementation challenges under the measure are:

- Further prevention of corruption in public procurement procedures;
- Improvement of legislation (full harmonization with EU Directives) in order to increase competitiveness, efficiency and transparency in public procurement procedures.

Next steps

Further activities to be undertaken with a view to the implementation of the measure are:

- Adopt a new Law on Public Procurement and accompanying by-laws;
- Continue trainings for contracting authorities and tenderers in 2019;
- Establish a new public procurement portal that will be defined by the new Law on Public Procurement;
- Adopt the Public Procurement Development Strategy 2019-2023;
- Build capacity in the Public Procurement Administration through the recruitment of new employees.





7 Pillar IV

Effective financial control

Measure 11

TO IMPROVE STRATEGIC AND LEGISLATIVE FRAMEWORK FOR IMPLEMENTING PUBLIC INTERNAL FINANCIAL CONTROL

Key results achieved so far

- The Strategy of Internal Financial Control in the Public Sector for the period 2017-2020 was prepared and adopted, with the Action Plan for the period 2017-2018

| Performance indicator ¹² | 2015 | 2016 | 2017 |
|--|-------------------|-------------------|-------|
| Completeness of the regulatory framework for Internal control SIGMA | N/A ¹³ | N/A ¹⁴ | 3/5 |
| Number of internal control reports (PFB annual reports on FMC and IA submitted to the CHU) | 1,000 | 1,097 | 1,390 |

Progress achieved in 2018

The Working Group for Coordination of Activities from the PIFC was established on December 20, 2018. The working group was established within the Public Administration Reform Council and consists of representatives of the CHU, the MDULS, the RSPP, the Budget Department of the Ministry of Finance, the Public Procurement Office, the Ministry of Justice and the Ministry of Economy. The main tasks of the Working Group are coordination of financial management and control and internal audit activities as well as monitoring of the reporting process on the implementation of the Strategy for Development of Internal Financial Control in the Public Sector in the Republic of Serbia for the period 2017-2020.

¹² The indicators are taken from the SIGMA Report on the Principles of Public Administration Management.

¹³ This is a new SIGMA indicator that is not available for 2015.

¹⁴ This is a new SIGMA indicator that is not available for 2016.



As regards the improvement of the legislative framework in the area of financial management and control, a number of preparatory activities were carried out:

The CHU, in cooperation with the Twinning Partner, developed and published on its website the following:

- Guidelines on the concept of managerial accountability that should help public funds beneficiaries to properly understand the concept of managerial accountability in a fair and comprehensive manner, and to enable the establishment and development of this concept in practice in accordance with existing external and internal regulations and organizational structure of the beneficiaries in order to achieve the goals of the organization as efficiently as possible;
- A questionnaire for the self-assessment of managerial accountability as a tool for public funds beneficiaries to perceive the situation in this area and obtain guidelines for further improvement;
- The updated Model of Risk Management Strategy and Risk Management Guidelines.

The work on the development of managerial responsibility was intensified in 2018. Intensive coordination and cooperation was established with the institutions or organizational units that are crucial for this area: Ministry of Finance, Ministry of Public Administration and Local Self-Government, Public Policy Secretariat and the Budget Department, which are also part of the negotiating group for Chapter 32. With the Twinning Partner, a Pilot Project is implemented with a focus on managerial responsibility in the institutions¹⁵ that are responsible for regulations governing the essential elements of management responsibility: MF, MPALS and PPS. The Pilot Project will help identify and develop examples of good practice, prepare materials (methodologies and guidelines) and identify weaknesses in current and planned regulations and practices whose elimination will be planned in the future strategic documents.

The Law on the Budget System of December 8, 2018 introduced a definition of irregularities in order to further elaborate the concept of irregularities management. To that end, in October 2018, with the support of the GIZ, a workshop was held entitled “Developing a model for managing irregularities within the system of financial management and public sector control in accordance with the requirements of Chapter 32: Financial Control”, which was attended by representatives of relevant institutions, such as: the Ministry of Finance, the State Audit Institution, the Public Procurement Office, the Audit Office of EU Funds, the City of Belgrade, the Anti-Corruption Agency, etc.

During 2018, the amendments to the Rulebook regulating the field of financial management and control started. The basic changes will include further elaboration of the management responsibility of the PFB, management of irregularities, as well as foresee the obligation to sign and submit the Statement on Internal Control by the head of the PFB.

¹⁵ The NES is also involved in the Pilot due to its specific structure and size and as an example of good practice.



In the course of 2018, a draft Rulebook on Continuous Professional Development of Certified Internal Auditors in the Public Sector was prepared to a great extent.

At the end of 2018, an individual annual review of the quality of the IR work in nine PFB institutions began. The quality control review of the IA implies the verification of compliance with the prescribed requirements for the establishment of internal audit units, scope of audit, competence and skills of internal auditors, functional and organizational independence of internal audit, internal audit charter and code of ethics, knowledge of internal audit standards, strategic and annual plans of internal audits, implementation of internal audit methodologies, risk management within internal audits, internal quality control, need for trainings and memberships in professional associations. This overview is based on individual reviews carried out by employees of the Sector – Central Harmonization Unit of the Ministry of Finance.

The needs for improving the organizational, technical and administrative capacities of the CHU were identified in order to enhance the functionality for the implementation of all defined activities within its competence, and accordingly, in December 2018, new classification of jobs was proposed and approved which would enable the CHU to extend its capacities, and the organizational structure and the work of the CHU was improved. The FMC and IA, as basic functions, were divided into segments related to the development of methodology and quality control. The separation of the quality control function from the IA and FMC furthered their development. The additional unit specialized in training also included in its scope the transfer of the training function from the CHU to the National Academy of Public Administration. The preparation of the procedure for filling up vacancies is underway.

The existing CHU capacities have been constantly improved through employees' participation at all relevant trainings, as well as through participation at all regional and international conferences (PIC annual conference, RESPA conferences, WB Pem-Pal conferences, CEF education and trainings, etc.).

The CHU continuously works on the promotion and recognition of the domains of its work, and accordingly, regularly updates its website with new and current documents, regulations, as well as materials for financial management and control and internal audit.

Special software for the purpose of collecting the annual reports of public funds beneficiaries, adjusted to the operational needs for analysis and preparation of the Consolidated Annual Reports, was developed and tested. During 2018, a test phase of the software was carried out for about 200 beneficiaries of public fund. On that occasion, certain defects were noticed. The defects will be corrected through the upgrade of the software.

The software should enable public funds beneficiaries to submit annual reports more easily and swiftly to the CHU in electronic form, via online access, as well as help the CHU to develop its reporting and analytical potential.



In addition, the analytical approach, content and form of the last Consolidated Annual Report were improved in cooperation with SIGMA experts. Improved Consolidated Annual Report for 2017 on the state of internal financial control in the public sector of the RS was adopted in September 2018. The CHU is continuing to improve the reporting system through SIGMA support.

At the end of 2017, an e-learning platform was implemented that enables better exchange of knowledge in the field of FMC and IA. The platform is continuously updated and enables its users to learn from training materials that cover both the theoretical and practical part. At the beginning of 2018, financial management and control training materials were uploaded – all four modules, and it is available to all interested parties.

During October 2018, the CHU initiated the process of transferring training for the FMC and IA to the National Academy of Public Administration (NAPA). At the end of 2018, the CHU prepared annexes for the Continuing Professional Development Programme. The programme envisages a five-day FMC training, as well as theoretical and practical training for obtaining a certificate for performing an internal audit in the public sector during 2019, which is defined as zero year of the NAPA training implementation. In addition to these training courses, the CHU prepared a short training for managers of all levels within the NAPA, which, apart from the standard topics of FMC and IA, will also cover the concept of managerial responsibility. The procedure for relocating training is still ongoing.

At the end of 2017, an analysis was prepared of shortcomings and it contains a cross-section of the state of financial management and control, and internal audit in the public sector. It was carried out with the backing of the twinning project and contains recommendations for overcoming the observed shortcomings and developing the PIFC system. The analysis was finalized at the beginning of 2018.

During 2018, UNDP continued to support the CHU through the implementation of projects funded by SDC and SECO. In 2018, these projects were backed by the CHU through the provision of numerous trainings and events with the aim of improving the capacities of both CHU employees and the PFB. In the first part of 2018 tremendous support was provided for software development as well as the websites and enriching content for the e-learning platform.

Financing of the measure

Most measures related to Measure 11 are supported through the UNDP project “Improving Public Financial Management”, funded by the SDC, in addition to regular budget funds.

During 2018, the UNDP project spent about USD 12,000 on the participation in the PEMPAL conference in Brussels, promotion of the official CHU website and development of e-learning materials, as well as the creation of two banners and video material which is a form of a guide to using electronic reporting software.

The twinning project France-Serbia, funded by the EU¹⁶, supported the various activities of the CHU listed under Measures 11, 12 and 13 in the amount of EUR 416,495.02 during 2018.

Key challenges

- The overall strengthening of the CHU as a trigger for change has to be generally recognized by the highest levels of management. In late 2018, the last classification enabled the CHU to strengthen its capacities to a significant extent;
- Further raising awareness through: enhanced activities on the official website, distribution of promotional materials, customized financial management and control (FMC) for public funds beneficiaries at the central government level, organization and participation in conferences;
- In the area of managerial accountability, the constant challenge is the fact that the regulations regulating this area are largely not within the competence of the CHU. Due to this, the CHU is making special efforts to ensure successful coordination with institutions and units that are crucial to the creation of regulations in this area (MSALS, PPS and the budget department of the Ministry of Finance).

Next steps

- Develop the Action Plan for the PIFC Strategy for the period 2019-2020;
- Prepare a new PIFC planning document for the period after 2020;
- Further coordinate all stakeholders in the area of managerial accountability;
- Finalize the Pilot Project with a special focus on managerial accountability;
- Prepare materials and methodological guidelines in the field of managerial accountability;
- Identify the weaknesses of existing regulations and practices in the area of managerial accountability;
- Continuously upgrade and update the existing methodological manuals and guidelines in accordance with the best international practice;
- Improve the internal auditor's certification system;
- Transfer the function of training from the CHU to the National Academy of Public Administration;
- Further improve the content and quality of consolidated annual reports on the state of internal financial control in the public sector of the RS;





- Amend the FMC Rulebook and Manual to harmonize the concept of managerial accountability with the principles of good governance and introduce the function of managing irregularities in the FMC framework and the introduction of the obligation to submit the Statement of Internal Audits;
- Define continuous professional development of internal auditors by legislation;
- Regulate the external assessment of the quality of the internal audit of PFB by delegated legislation;
- Correct software defects;
- Enhance the capacity of the CHU.
- Develop a road map to strengthen the role of the CHU in the reform process of public administration and the concept of managerial accountability;

Measure 12

TO ENHANCE THE IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL

Key results achieved so far

- The progress made in the field of financial management is best reflected through the assessment of the key FMC elements based on the COSO model.

| Performance indicator ¹⁷ | 2015 | 2016 | 2017 |
|---|------------|------------|------------|
| Average Grade of the FMC System Elements in the RS – COSO model | 67% | 69% | 79% |

Within the scope of Measure 12, there are two defined results that are related to the continuous support of the CHU through workshops aimed at the managers of public funds beneficiaries, FMC coordinators and groups in charge of financial management and control in order to reach better understanding of financial management and control system.

¹⁷ The source of data is the CHU database created on the individual annual reports of public funds beneficiaries of the PIFC system in accordance with the Budget System Law

Average Grade of FMC System of all PFB in the RS for 2015, 2016 and 2017 per elements of COSO framework (in %)

| Year | Control environment | Risk management | Control activities | Information and Communication | Monitoring, supervision and estimate | Average |
|------|---------------------|-----------------|--------------------|-------------------------------|--------------------------------------|-----------|
| 2015 | 72 | 69 | 66 | 74 | 49 | 67 |
| 2016 | 73 | 75 | 67 | 76 | 48 | 69 |
| 2017 | 85 | 76 | 77 | 88 | 62 | 79 |

Table: Comparative overview of the average grades of individual elements of the FMC system for 2015, 2016 and 2017¹⁸

Progress achieved in 2018

In 2018, trainings on FMC continued with improved materials (presentations and manuals) (main topics: introduction to financial management and control, integrated internal control framework – COSO model, risk management, control activities, self-assessment and reporting, etc.), including training in local self-government units (cities: Kragujevac, Niš, Subotica, Kruševac, the municipality of Bečej).

Support to the managers of public funds beneficiaries at all levels of government and FMC coordinators was provided through 16 one-day workshops and trainings attended by around 450 participants (main topics: basic principles of the FMC system, managerial accountability, drafting procedures and documenting business processes, risk management and risk management strategy development, the role of internal audit in the internal control system). During the workshops and meetings, FMC coordinators were given special practical assistance in mapping business processes and in adapted strategies for the further implementation of financial management and control in their institutions.

With the support of the Twinning Project, two one-day workshops were held on the topic: “Fundamentals of the concept of financial management and control and the new COSO framework”, attended by 33 participants (representatives of all ministries and Governmental Audit Office of EU Funds), and a one-day workshop on the topic of “FMC tools, practice and implementation of managerial responsibility in France” for representatives of the pilot institutions (Ministry of Finance, Ministry of Public Administration and Local Self-Government, National Employment Service), held on June 21, 2018 (19 participants).

¹⁸ Consolidated annual report for 2017 on the state of internal financial control in the public sector in the Republic of Serbia



During 2018, UNDP support funded by the SDC project included training, consultations, events and the development of materials in this field.

In December 2018, a special group was formed in the Sector – CHU, which will deal with the quality control of financial management and control.

Financing of the measure

Most of the activities under Measure 12 were supported, apart from regular budget resources, through the UNDP project “Improving Public Financial Management” financed by the SDC. In 2018, approximately USD 5,800 was invested in improving trainings, consulting, and developing materials in the area of financial management and control.

Key challenges

The biggest implementation challenges under the measure are:

- Frequent institutional changes and fluctuation of managers of PFBs and coordinators of FMC reduced potential improvement in the field of FMC. In order to tackle this challenge, the CHU constantly included new PFBs participants through its regular FMC trainings, as well as through its specialized FMC workshops and meetings;
- The lack of CHU capacities was partly overcome by additional classified jobs within the Sector that need to be filled, as well as by the continuous improvement of the knowledge of the CHU employees in the field of internal control by participation in domestic and international conferences (PIC annual conference, RESPA conferences, WB Pem-Pal conferences, CEF education and trainings, etc.). On the basis of the new organisation structure, the CHU will proceed with the recruitment procedure for hiring the new staff.

Next steps

- The CHU will continue its activities for conducting basic FMC trainings, as well as providing practical support and advisory services to managers of public funds beneficiaries and coordinators of FMC;
- Establish the quality control function of the financial management and control of the PFBs;
- Continuously improve professional knowledge of employees in the CHU by adopting the best international practices in FMC and IA;
- Improve the content and form of the CHU questionnaire in order to improve the quality of analytical data provided by PFBs;
- Develop a model of practical application of FMC that will be available to public funds beneficiaries;
- Develop material in the field of Management Accountability;
- Raise awareness among managers through additional trainings in the field of FMC within the NAPA programme of professional development of managers;





- Develop materials which can be downloaded through the e-Learning platform on the CHU website;
- Organize workshops for senior managers on the role of financial management and control continually during 2019 and 2020;
- Update and redesign all FMC training materials.

Measure 13

TO SUPPORT THE INTRODUCTION AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION

Key results achieved so far

- At the central level, until the end of 2016, in 80 public funds beneficiary institutions, the internal audit was established with 281 classified internal auditor positions, out of which 230 were filled up. The audit was established in all 16 ministries and three compulsory social insurance funds. At the level of the territorial autonomy units and local self-governments, the internal audit function was established in 77 of them, with 182 classified and 141 filled up internal auditor positions.¹⁹
- At the central level, until the end of 2017, in 83 public funds beneficiary institutions, internal audit was established with 296 classified internal auditor positions, out of which 243 were filled up. The audit was established in all 18 ministries and three compulsory social insurance funds. At the level of the territorial autonomy units and local self-governments, the internal audit function was established in 100 of them, with 204 classified and 154 filled up internal auditor positions.
- During the previous years, the quality control of internal audit covered 10 institutions in 2016, and 11 institutions in 2017. At the end of 2018 an individual annual review of the quality of work of the IA in nine institutions of the PFB started, and it is planned to increase this number to 20 institutions by the end of 2021.

¹⁹ As for the total number of internal auditors and IA units, due to the decentralized internal audit system, as well as the overall legislative framework, the CHU does not have precise data. In accordance with the Rulebook on IA, an internal audit is established by a beneficiary of public funds in several ways, and exceptions for special situations are defined.



| Performance indicators ²⁰ | 2014 | 2015 | 2016 | 2017 |
|---|-------------|-------------|-------------|--------------------------|
| The number of internal audit recommendations for business improvement | 4916 | 5901 | 6167 | 6102²¹ |

Progress achieved in 2018

During September 2018, the CHU reminded all ministries that had not established or completed internal audit units that this was their legal obligation. The process of filling up internal auditors' vacancies in ministries is closely monitored by the CHU.

During 2018, the CHU organized practical training for conducting internal audit with 35 public funds beneficiaries for 47 candidates for the title of certified internal auditor in the public sector. The theoretical part of the seven-day internal audit training included 51 employees with public funds beneficiaries. In two exam periods, 36 candidates passed the exam and acquired the title of a certified internal auditor in the public sector.

By the end of 2018, a total of 413 internal auditors acquired the title of certified public auditor in the public sector.

As regards the Internal Audit, by the end of 2018, the quality review was carried out exclusively by the CHU and implied checking the fulfilment of the prescribed requirements for the establishment of an internal audit unit, scope of the audit, competence and training of internal auditors, functional and organizational independence of internal audit, charter and ethical code of internal audit, knowledge of internal audit standards, strategic and annual internal audit plans, implementation of the internal audit methodology, internal audit risk management, and internal quality control, the need for future training and membership in professional associations. Within the new classification, a special unit will be established to deal with these issues, which, in addition to the independent self-assessment of quality control, will prepare the regulation and methodology for additional two quality control modalities: peer review and internal review within the PFBs themselves.

During 2018, the support of UNDP, financed by the SDC and SECO, covered trainings, consultations, events, and the development of materials in this field.

²⁰ The source of data is the CHU database created on the basis of individual annual reports of public funds beneficiaries on the PIFC system. In accordance with the Law on the Budget System, the Head of the CHU is obliged to inform the Minister of Finance on the PIFC system by March 31 of the current year for the previous year, and the CHU is in charge of publishing the consolidated annual reports on the status of internal financial control in the public sector in the Republic Serbia.

²¹ KGI 2017



With the support of the Twinning Project, the following activities were completed in 2018:

- Guidelines for the establishment of the Audit Committee and the joint internal audit units within the small-scale public funds beneficiaries were drafted;
- The following trainings/workshops were organized for PFB internal auditors: “Effective Audit Reports” (4 one-day trainings held in February 2018 for a total of 76 participants); “Revision of Purpose” (four one-day trainings held in May and November 2018 for a total of 58 participants); “Audit of Financial Management and Control System”, (two one-day trainings held in June 2018 for a total of 35 participants) and “Revision of European Union Funds” (one-day training held in December 2018 for 15 participants).
- A study visit to the Republic of Slovakia was organized for the representatives of the Ministry of Finance (7 participants) on the topic “Function and implementation of internal audit in the EU Member State” in March 2018.

Financing of the measure

Most activities under Measure 13 were supported, apart from regular budget funds, through the UNDP project “Improving Public Financial Management” funded by the SDC. In 2018, about USD 15,575 was spent on trainings, consultations, events and developing materials in this area.

Key challenges

- Further improvement of the skills and knowledge of the internal auditors of IPA beneficiaries. The CHU carried out numerous activities such as conferences, meetings and trainings, together with the Audit Office of the EU Funds, the Department for EU Funds Management and the Department for Contracting and Financing of EU Funded Programs of the Ministry of Finance.

Next steps

- Improve the certification system;
- Develop guidelines for the establishment of an internal audit function for small-scale public funds beneficiaries regarding the organization of joint internal audit units;
- Prepare regulations and coordinate quality control of internal audit (internal control, peer review and review by the CHU);
- Improve FMC quality control and IA function.



Measure 14

TO FURTHER STRENGTHEN THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF AUDIT OFFICE OF EU FUNDS

Key results achieved so far

| Performance indicator | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|-----------------|
| Number of high and medium risk findings in the Audit Office of EU Funds by the EC auditors | 4 | 4 | 5 | 4 | 3 ²² |

- During the reporting period, the operational capacities of the Audit Office of EU Funds have been enhanced through the implementation of the planned activities related to the implementation of functional analysis and ensuring an adequate number of employees;
- The draft legal framework for the (re)institutionalization of the Audit Office of EU Funds was prepared in December 2017, but the final phase of adoption was postponed due to the lack of institutional and economic justification;
- Organizational, technical and administrative capacities of the Audit Office of EU Funds were improved in line with the requirements of the European Commission, which increases the functionality for carrying out auditing activities. In line with the recommendations of the latest version of the work volume analysis, the Office employed the appropriate number of competent civil servants.

Progress achieved in 2018

During 2018, the emphasis was placed on the regular activities of the Office, as well as on the preparation for the adoption and implementation of the legislative framework for the (re)institutionalization, in line with the EC recommendations and providing the basis for further strengthening the administrative capacities of the Office. The law has not been adopted yet.

Financing of the measure

For the implementation of the measure, the Office has so far planned and spent EUR 59,000 from the state budget for recruiting new staff. In order to further strengthen administrative capacities, the Office implemented the project "Introduction of Software – AuditDoc for Review and Handling Documents", whose cost in the amount of EUR 220,000 was financed from IPA 2013.

²² Based on the latest available data: DG NEARDG NEAR Report. Ares (2018) 6152640 - 30/11/2018 and DG AGRI Ref. Ares (2018) 1062069 - 26/02/2018 (6 open, of which 3 are common)

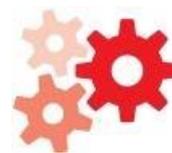
Key challenges

The biggest challenges are related to the following:

- Postponing the adoption of the proposed legislative framework for the (re)institutionalization of the Office. The competence of the proposer of the legislative framework was transferred to the Ministry of European Integration, and the adoption is expected by the end of 2019.
- Lack of adequate staff retention policy, since there is a need to prevent staff outflow through systemic reforms in human resource management.

Next steps

- Further strengthen the administrative capacities of the Office in order to provide relevant recommendations for the IPA structure for improving decentralized/indirect management of the EU pre-accession funds, and implementing programmes and projects financed from IPA funds;
- Adopt and implement the legislative framework for the (re)institutionalization in accordance with EC recommendations, and providing the basis for the further strengthening of the administrative capacities of the Office;
- Prepare a comprehensive Staff Retention Policy under the IPA structure in accordance with the measures taken at the national level for the state administration bodies and the Government services, in which, in accordance with their scope, the state administration affairs are carried out, which relate to the management of the EU pre-accession assistance;
- Prepare three-year long audit strategies in accordance with Annex E of the Law on ratification of framework agreement between the Republic of Serbia and the European Commission on the rules for the implementation of EU financial assistance to the Republic of Serbia, within the Instrument for Pre-Accession Assistance (IPA II) and their update on an annual basis.
- Prepare an annual audit plan, in accordance with the Law on Ratification of the Framework Agreement between the Government of the Republic of Serbia and the Commission of European Communities on the rules for cooperation relating to financial assistance of the European Community to the Republic of Serbia, within the implementation of assistance in line with the rules of the Instrument for Pre-Accession Assistance (IPA) and its fulfilment.
- Further strengthen the administrative capacities of the Office aimed at accepting new obligations, arising from: Chapter 22 – Regional Development and Chapter 11 – Rural Development²³ – Certification Body.



²³ "Official Gazette of RS", number 99/16

Measure 15

TO IMPROVE IRREGULARITY MANAGEMENT, ANTIFRAUD COORDINATION AND COOPERATION, AND PROTECTION OF FINANCIAL INTERESTS OF THE EUROPEAN UNION

Key results achieved so far

- The Budget System Law (hereinafter: BSL) was amended in December 2016 and in December 2017²⁴ providing for a wider scope of responsibilities and the necessary legal basis for both BI and AFCOS.
- In October 2017, the Regulation on Work, Authorizations and Features of the BI was adopted;²⁵
- Strategy for reducing irregularities and fraud in managing EU funds in the Republic of Serbia for the period 2017-2020 (hereinafter: the Strategy) and the Action Plan for its implementation were adopted at the Government's session on October 26, 2017 and published in the Official Gazette of the Republic of Serbia no. 98 of November 3, 2017.²⁶
- As of January 2017, the BI and AFCOS can receive via the official MoF website electronic complaints about irregularities in spending EU funds, complaints, reports, objections and requests for control, which enables their faster handling.

| Performance indicator | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---------------------------|------|-------|------|-------|------|-------|------|-------|------|-------|
| | BI | AFCOS |
| No. of controls performed | 21 | - | 19 | 1 | 14 | 2 | 21 | 3 | 15 | 7 |

Progress achieved in 2018

In November 2018, the Rulebook was adopted on special elements of risk assessment, frequency of inspection supervision, i.e. control based on risk assessment and special elements of the inspection supervision programme, i.e. control in the scope of the budget inspection.

In December 2018, a new Rulebook on internal organization and classification of jobs in the MF was adopted, according to which the Department for Budget Inspection, as an integral part of the Public Funds Control Sector, became a separate Sector for Budget Inspection. The work in the Sector for Budget Inspection is performed in two departments: the Budget Inspection Department and the Department for Normative, Study-Analytical Affairs, Assessment and Risk Management.

²⁴ "Official Gazette of RS", number 113/17

²⁵ Decree on work, authorizations and features of the Budget Inspection <http://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/reg/viewAct/b5f0c595-fbe4-4f2f-895f-aa9d0013f8d4>

²⁶ Document published on the website of the Ministry of Finance <http://www.mfin.gov.rs/pages/article.php?id=13398>

BI employees participated in trainings on the following topics: budget accounting and financial planning; more efficient inspections; workshops for public procurement; criteria for the most economically advantageous offer in practice, with examples; IMF-FAD Technical Assistance Mission in Serbia – Workshop for costing; ethics and integrity of employees in the public sector; lobbying in EU – diplomatic practice; workshop on preparation of the report on the implementation and improvement of the Public Financial Management Reform Programme.

The planned increase in the number of employees will lead to more efficient and more functional work of the Sector for Budget Inspection, in terms of increasing the number of controls performed in relation to the number of received complaints, reports and requests for control, which will enhance the protection of both EU financial interests and national interests.

Progress achieved in 2018 (AFCOS)

The Law on Budget System of December 2018, Article 2, “Definitions”, was amended to include item 47a a definition of administrative checks as follows:

“47a) Administrative checks are the acts of verification, official controls, supervision and other measures aiming to determine the nature of irregularities in order to protect the financial interests of the European Union and, consequently, the financial interests of the Republic;”



With the adoption of the Rulebook on internal organization and job classification in the Ministry of Finance on December 19, 2018, a department for combating irregularities and fraud in dealing with EU funds (Anti-Fraud Coordination Service – AFCOS) was established as an organizational unit outside the sector, secretariat and cabinet, and under the direct responsibility of the Minister of Finance. The department comprises three groups – data analysis and risk management group, group for acting upon irregularities reported, and the support group, with ten classified jobs. At the end of 2018, a total of five employees were engaged in the Department for Combating Irregularities and Fraud. The reorganization was carried out in accordance with the recommendations of the SIGMA analysis “Rationalization of the Work of the Budget Inspection and the Department for Combating Irregularities and Fraud in dealing with EU Funds”.

In 2018, AFCOS employees participated in several workshops, seminars and study visits, aimed at further strengthening institutions in the area of prevention, detection, treatment, reporting and monitoring of identified irregularities and suspicions of fraud in order to protect financial interests of the EU.

AFCOS representatives took active part in organizing seminars and giving presentations within the Project “Strengthening the capacity of the Serbian police to fight corruption – Phase I”, implemented by the OSCE Office in Belgrade in order to enhance the capacities of the Republic Public Prosecutor’s Office and the Ministry of Internal Affairs in handling irregularities and fraud in dealing with EU funds. The seminars were held in Belgrade (March 2, 2018), Kragujevac (March 9, 2018), Niš (March 16, 2018) and Novi Sad (March 23, 2018), Belgrade (October 16 to 19, 2018), and Vrnjačka Banja (November 6 to 9 2018).

Financing of the measure

The measure is financed with regular funds from the national budget. The training was organized through cooperation with and support of: OLAF, TAIEX, DIS III-IPA, GIZ, UNDP, USAID, CEPOL, PARAGRAF, OSCD, IMF and Human Resources Management Services of the Government of the Republic of Serbia. The amount needed for new employees was provided for by the 2018 budget.

Key challenges

- Insufficient number of employees for performing all the envisaged functions. According to the MoF Vertical Functional Analysis carried out by the World Bank in 2016, there was a difference between required and existing staffing levels in the Department for Control of Public Funds. The Rulebook on internal organization and classification of workplaces adopted in December 2018 in the newly-formed Sector for Budget Inspection resulted in a total of 40 classified positions, in contrast to the previous Rulebook, which classified a total of 23 positions. It is expected that this increase in the number of employees will additionally contribute to the positive trend of identifying and reporting irregularities.
- After three new employees were taken on, the number of employees in AFCOS increased, so at the end of 2018 there were a total of 5 (five) employees;

Next steps

- In the second quarter of 2019, BI methodology will be prepared. The Budget Inspection of the MoF will be in charge of the full harmonization and coordination between BI and budget inspectors of local self-government, as well as BI and provincial budget inspectors. More precisely, the methodology will prescribe uniform standards and procedures for performing inspection controls.
- Strengthening the capacity of the budget inspection increases the need to train newly employed inspectors, as well as improve the knowledge of the present inspectors, and by the end of 2019, an effective Training Program for budget inspectors is expected to be developed.



- In order to strengthen the institutional capacity of the budgetary inspection and improve the protection of the financial interests of the Republic of Serbia, at the beginning of 2020, it is planned to pass and adopt a planning document for the development of the budget inspection from 2020 to 2025 and an accompanying action plan.
- Preparatory activities were carried out to identify all bodies involved in the management of EU funds and end-users in order to implement the risk management policy, with the support of the German Organization for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ). The development of a methodology for the management of irregularities and fraud risk is planned for 2019.





8 Pillar V

Accounting, monitoring and financial reporting

Measure 16

TO IMPROVE COVERAGE AND QUALITY OF BUDGET EXECUTION REPORTING

Key results achieved so far

- Coverage and quality of reporting on budget execution and fiscal reports were improved in several steps. The budget execution of the Republic of Serbia is performed through the information system of the Treasury Administration. Budget beneficiaries connect to this system and administer financial and operational processes, based on their authorization, through logistic support provided by the Treasury Administration.

| Performance indicator | 2017 | 2018 | 2019 |
|--|------|-------|-------|
| Number of indirect budget beneficiaries integrated into the budget execution system (total) | 247 | 320 | 529 |
| Quality of annual financial reporting on the use of public finances (SIGMA, based on audit opinion of the SAI) | TBC | 1,097 | 1,390 |

- The information system of the Treasury Department has been continuously improved through upgrading and improving its functionalities. **The production of the new budget execution system started on January 1, 2018.** A secondary/back-up data storage centre has also been established through the support of the EU pre-accession funds;
- The final analysis of the operations of public enterprises for 2017 was prepared after the deadline for submission of annual financial statements for 2017 and published on the website of the Ministry of Economy²⁷;
- Monitoring and reporting on arrears have been improved by extending the RINO system²⁸ to include public-to-public transactions (starting from January 1, 2016).

²⁷ <https://privreda.gov.rs/wp-content/uploads/2018/10/NOBO-Konacna-analiza-poslova%D1%9Aa-2017.-godina-za-sa%D1%98t.pdf>

²⁸ Web applications and instructions for the RINO system: <https://www.trezor.gov.rs/src/services/rino/>

- A new Rulebook on the Manner and Procedure for Supervision (Official Gazette of the Republic of Serbia no. 16/2018)²⁹ was adopted, which prescribes the manner and procedure for taking over the data on settled and unsettled obligations that public sector entities submit through the information system of the Treasury Administration.

Progress achieved in 2018

As of January 1, 2018, another 73 indirect beneficiaries of budget funds were integrated into the information system of budget execution – ISIB (institutions for the execution of penal sanctions, Solidarity Fund, Socio-Economic Council of Cultural Institution). Also, during 2018, preparations and trainings were conducted for 209 indirect budget beneficiaries (social protection institutions) in order to integrate them into the ISIB as of January 1, 2019.

The monitoring of the operations of public enterprises was continued, and in this regard, the Ministry of Economy prepared and published analyses of the operations of public companies covering the period from January 1 to March 3, 2018³⁰ and January 1 to June 30, 2018³¹.

The Law on Amendments to the Law on Deadlines for Fulfilment of Financial Obligations in Commercial Transactions (Official Gazette of the Republic of Serbia no. 113/17) stipulates, inter alia, the obligation valid as of March 1, 2018 to register invoices and other payment requests issued by creditors in commercial transactions between the public sector and business entities, i.e. between public sector entities, in which public sector entities are debtors, and therefore, the Ministry of Finance – the Treasury Department established the Central Invoice Register (CIR)³² as a database for the registration of underlying invoices and other requests for payment.

This amendment to the Law obliges creditors to register issued invoices in the CIR as well as other requests for payment in commercial transactions in which debtors are public sector entities, before delivering them to debtors, by entering data from the invoice or other requests for payment into the Treasury IT system.

²⁹ Rulebook on the Manner and Procedure for Supervising the Implementation of the Law on Deadlines for settling obligations in commercial transactions between the public sector and business entities in which the entities are public sector borrowers and between public sector entities, as well as on the manner and procedure of delivery and takeover data on undertaken obligations of public sector entities, for the purpose of carrying out the supervision "Official Gazette of the Republic of Serbia, number 88/2015 and 16/2018, retrieved at:

<http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2018/Pravilnik%20nadzor%20RINO.pdf>

³⁰ <http://privreda.gov.rs/wp-content/uploads/2018/10/Analiza-Poslovanja-01.01.-31.03.2018..pdf>

³¹ <http://privreda.gov.rs/wp-content/uploads/2018/10/Analiza-01.01-30.06.2018.pdf>

³² <https://www.trezor.gov.rs/src/services/crf/>

Registration of invoices, as well as other payment requests, enables better planning and management of liquid assets, both to economic entities and in the public sector. This will also enable better transparency of data on creditors' claims against public sector entities in commercial transactions, as well as transparency of data on public sector entities' obligations in these transactions.

Financing of the measure

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

Key challenges

The biggest implementation challenges under the measure are:

- Administrative and technical capacities of indirect budget beneficiaries related to the budget execution system.

Next steps

The measure was fully implemented through the integration of indirect beneficiaries of the Ministry for Labour, Employment, Veterans' and Social Affairs – Social Protection Institutions in the budget execution system on January 1, 2019.



Measure 17

IMPROVEMENT OF THE EXISTING CAPACITIES OF THE ACCOUNTING AND BOOKKEEPING SYSTEM IN THE PUBLIC SECTOR

Key results achieved so far

- The Gap Analysis on the current accounting practices and IPSAS standards was conducted with the technical assistance of the IMF;
- The new roadmap for the adoption of accounting IPSAS standards in the public sector was prepared in accordance with additional analyses and estimates with the technical assistance of the IMF;
- The *pro forma* financial report for 2015 was drafted in accordance with IPSAS standards for the cash basis for the central level of government;
- The preparation of a new Action Plan will include the establishment of accrual accounting by 2034.

Progress achieved in 2018

The implementation of the accounting reform towards the transition to accrual accounting requires significant financial and human resources.

All changes in the accounting system should be preceded by analytical work, in order to evaluate options, associated risks and accompanying costs, as well as the expected proposals for further continuation of reforms. Reforms in this area should be gradual and planned to be implemented in the medium/long term to provide sufficient time for the preparation of detailed implementation plans, the preparation of accounting policies, and the implementation and testing of new systems. In line with the assessment and suggestions provided by the SIGMA experts, the transition to accrual accounting requires a gradual and long-term implementation as well as an adequate starting point. In order to ensure a proper sequence of the accounting reform and to ensure that the results of this reform are adequate, it is necessary to enhance the cash-based accounting system in accordance with IPSAS as a starting point.

In this regard, during 2018, a revision of the part of the Public Financial Management Reform Program related to accounting and formulation of activities for the new Action Plan for the period 2019-2021, including indicators and cost estimates, was carried out.

Financing of the measure

Activities were implemented through the technical support of the IMF mission and the World Bank.

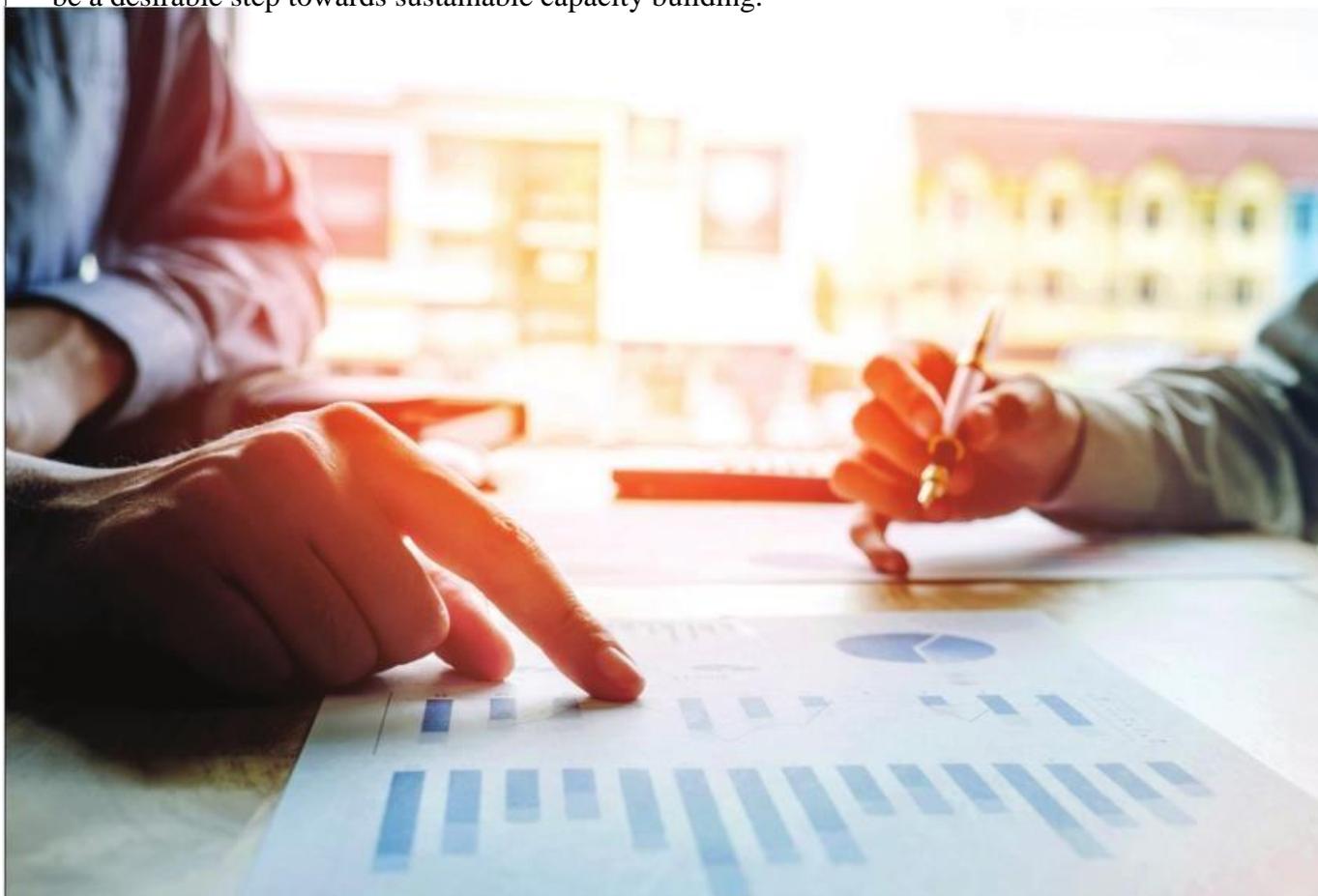
Key challenges

- Limited knowledge of IPSAS in Serbia can be an obstacle to aligning with these standards. A potential long-term challenge is the capacity of employees to master and apply new standards. The lack of qualified professional staff can be an obstacle to the improvement of accounting in the Republic of Serbia. Therefore, continuous training and improvement of the skills of state accountants is required;
- The lack of capacities in the overall accounting system in the public sector clearly indicates that they are insufficient and need to be strengthened;
- The translation of IPSAS standards – the standards have been translated by the Serbian Association of Accountants and Auditors. However, there are certain technical issues and the translation needs to be fine-tuned in order to be ready for the official approval and publication.

Next steps



- The Ministry of Finance, which carries out the activities related to the implementation of public sector accounting reform, needs to strengthen its own capacities and resources both in the MoF and Treasury Administration. Capacities and resources of public funds beneficiaries need to be enhanced too so that the reform can be successfully implemented. Otherwise, a shortage of qualified professional staff may be an obstacle to the improvement of accounting in the public sector.
- The introduction of accrual accounting is a very expensive and long-lasting reform that needs to be further developed, and in the coming period, it is necessary to carry out additional analysis of options, risks, costs, etc. (Cost Benefit Analysis) regarding the gradual transition to accrual accounting in the Republic of Serbia. This analysis will be extremely important as a guideline for further steps in the overall accounting reform process, bearing in mind that there is no uniform practice in the EU Member States as regards the accounting basis.
- A comparative analysis with countries that have switched to accrual accounting. It is necessary to record and analyze the state of affairs in at least three countries that have applied the accrual accounting basis.
- To join an internationally recognized training and certification program would be a desirable step towards sustainable capacity building.



9 Pillar VI

External scrutiny of public finances

Measure 18

TO STRENGTHEN COVERAGE AND QUALITY OF EXTERNAL AUDITS

Key results achieved so far

- Key results relating to the number of recommendations, published reports, the number of audit teams and annual audit programs can be seen in the following figure:

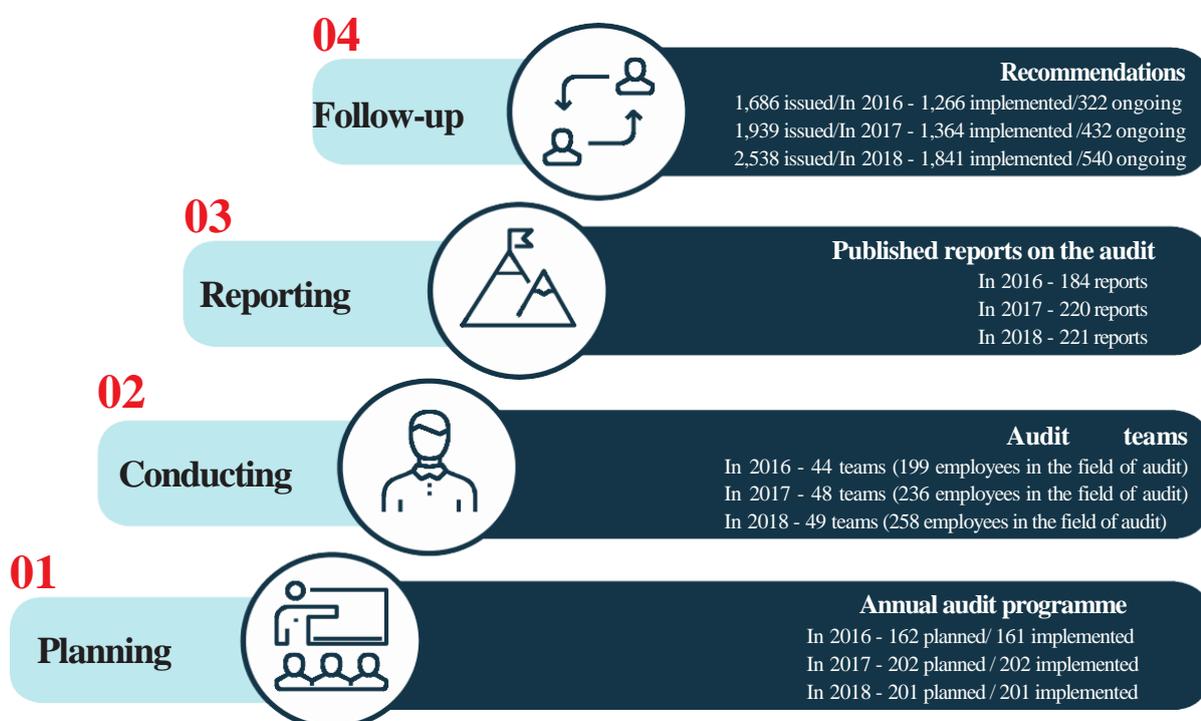


Figure 1: The SAI achievements in different phases of a business process for 2016, 2017 and 2018.

| Performance indicators | 2015 | 2016 | 2017 | 2018 |
|---|-----------------------|---------------|---------------|------------|
| Scope/nature of audit performed (including adherence to auditing standards) (PEFA, score from A to D) | B³³ | A | A | A |
| Share of SAI audit recommendations implemented by the auditees ³⁴ | 69.66% | 75.09% | 70.35% | 73% |

Progress achieved in 2018

In 2018, in order to provide a professional assurance to the National Assembly and the citizens of the Republic of Serbia how public funds are managed and used, the State Audit Institution continued to increase the audit coverage of public funds. The State Audit Institution achieves this by simultaneously increasing the number and quality of audit products.

The deadlines for the implementation of the activities under Measure 18 are continuous and last until 2020.

Improvements in the scope and quality of external audits have been achieved, inter alia, through the use of the manual and a set of guidelines that the SAI applies in the audit and which are in line with ISSAI standards (International Standards of Supreme Audit Institutions). Following the changes to ISSAI standard, in accordance with the ISSAI 4000 – Compliance Audit Standard, in 2018, the SAI adopted a special Handbook on Compliance Audit, as well as an Instruction for the preparation of reports on the compliance audit.

The State Audit Institution published 221 out of 247 planned audit products in 2018. Since the funds for the employment and improvement of staff in the State Audit Institution had not been secured and the spatial capacity was insufficient, the SAI did not take on new employees in the observed period, nor increase the number of appointed state auditors, as a prerequisite for the greater planned number of audit products.

At the same time, in order to be as efficient as possible, and therefore more useful for society, the SAI started to implement separate compliance audits in 2018 focusing on the areas in which the greatest risks were identified, i.e., where the greatest contribution could be made. Of the total number of published audit products using the aforementioned manual, there were 58 reports on compliance audit.

For this reason and in order to increase the number of audits of the business purpose, 2019 Audit Program was adopted on December 26, 2018, and it is of confidential nature until the audits begin or until a conclusion on the implementation of the audit is issued to the auditees. The list of auditees, after issuing audit conclusions, will be published on the SAI official website.³⁵

³³ The PEFA assessment was conducted in 2015, based on available data from 2013.

³⁴ The given data refers to the recommendations made on the basis of the 2014, 2015, 2016 and 2014 audit reports 2017. [5http://www.dri.rs/revizije/revizije-u-toku.11.html](http://www.dri.rs/revizije/revizije-u-toku.11.html)

³⁵ <http://www.dri.rs/pevuzuje/pevuzuje-y-moky.11.html>



Chart 1: Results achieved by the SAI in improving the coverage and quality of external audit

In order to further develop the capacity of the SAI staff, internal and international trainings were conducted (30 trainings, with duration ranging from one to ten days, and the number of participants ranging from 1 to 74). As part of these activities, a training on audit compliance was conducted, which resulted in an increase in the number of compliance auditors from nine to 48. This also enhanced the capacity of the SAI, which now has 12 teams for compliance audit instead of the previous two.

A new Rulebook for acquiring the title of state auditor and the authorized state auditor was adopted. Additional training was organized as well as the exam for acquiring the title of state auditor for about 60 employees in the State Audit Institution.

Memberships in various organizations and working groups (INTOSAI, EUROSAI (Task Force on Audit & Ethics, IT Working Group, Task Force on the Audit of Funds Allocated to Disasters and Catastrophes, Task Force on Municipality Audit and Task Force on Public Procurement) also promotes the development of the employees' capacity.

In late 2018 the SAI played host to its European colleagues from the Task Force on Municipality Audit, who came to Belgrade to hold the second annual meeting and seminar titled "Local Government Finance: Future Challenges". In addition, the employees of the State Audit Institution actively participated in several conferences within EUROSAI and INTOSAI.

With the support of the GIZ project, activities on the implementation of the Strategy for Human Resource Management continued. At the end of December 2018, a new Rulebook on internal organization and job classification in the SAI was adopted. A part of the organizational structure comprises five audit sectors, of which four are organized as public administration departments and trained to implement all three types of audit while the fifth performs tasks in the field of methodology.

In May 2018, with the support provided by the SAI from Latvia, Twinning Light Project “Audit Quality Control at the State Audit Institution” within IPA 2013 was completed.



The project resulted in the development of the Manual for quality assurance and quality control. By the decisions of the SAI President, policies for quality assurance and quality control were established (Manual Part 1) and procedures for quality assurance and quality control were adopted (Manual 2). The development of this Manual was preceded by the Evaluation Report containing a review of the existing SAI practice related to quality control (developed in 2017). At the beginning of 2018, the Policy and Action Plan for the introduction and implementation of standards related to quality audit were developed. Also, prior to its adoption, the Manual was tested in selected pilot audits, as follows: two cold reviews (reviews of published audit reports) and two warm reviews (reviews prior to issuing a draft audit report) were carried out to ensure quality and control quality of the audit report.

As foreseen by the project, 70 auditors received training on detailed procedures for quality control and quality assurance. In addition, five consultative meetings were held. Also, the delegation of the Institution went to Sweden for the second study visit envisaged by the project, where they were introduced to the practical processes of quality control and quality assurance of audits.

The Sector for Audit Methodology and Quality Control increased the number of employees by two auditors (one certified state auditor and one state auditor).

The implementation of the activities directed at establishing a database on audit recommendations which would facilitate the identification of systemic problems and improve the information base for parliamentary oversight of the executive power through the introduction of the public register of recommendations was not completed within the planned deadline (third quarter of 2018) due to other activities undertaken at the same time. Namely, as stated in the previous reports, the SAI is continuously working (analyzing functioning, updating codebook) to improve systemic follow-up of the implementation of audit recommendations by establishing a public registry of audit recommendations and required database. Improved technical possibilities for systemic monitoring of the implementation of the recommendations will be realized as part of the development of the custom software – Audit Management System (AMS), which is to be procured in 2019 and first used in 2020. The mapping process of the audit has been completed and the AMS requirements have been established, which the SAI will use to digitize its processes.

At the same time, while opening the data from the audit report, the SAI published on its website a form for the Auditees' Response Report³⁶. A new practice of publishing audit reports was introduced. In addition to publishing each report, the SAI also publishes a summary of audit reports, for which there is a special sub-menu on the SAI website, in the menu the Audits³⁷.



The European Commission's Progress Report 2018³⁸, as well as SIGMA Report on monitoring the principles of public administration from November 2017³⁹, supported the progress achieved within the measure, stating that “constitutional and legislative framework of the SAI complies with the INTOSAI standards”. It was also noted that the SAI continuously improves the quality of its audit work.

³⁶ <https://www.dri.rs/mediju/Obavestuenje-za-subjekte-revizije.n-339.7.html>

³⁷ <https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D1%80%D0%B5%D0%B7%D0%B8%D0%BC%D0%B5-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B0-%D0%BE-%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B8.405.html>

³⁸ Retrieved at: <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf>

³⁹ Retrieved at: <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>.

Financing of the measure

Pursuant to the Law on the Budget System and Budget Calendar, the deadline for direct budget beneficiaries to prepare an annual report is March 31. After the deadline and after the report has been adopted by the Council, the amount of realized funds for 2018 will be available.

Key challenges

The biggest implementation issues under the measure are associated with:

- Insufficient workspace capacity that affects the SAI capability to recruit additional staff;
- An insufficient number of employees (number and structure of staff affect audit coverage) that is directly linked to available funding and availability of the workspace. Possible discontinuity of work at the top management since the SAI Council members have relatively short terms of office⁴⁰. This is one of the issues that might be addressed alongside other amendments to the SAI law during the next reporting period⁴¹;
- Lack of funds – budget funds and external funds (donors).⁴²

Next steps

- In accordance with the new Strategic Plan for the period 2019-2023, adopted on December 24, 2018, in the forthcoming period, the activities of the SAI will be focused on further and continuous improvement of audit procedures, management of human resources and enhanced impact of the SAI through the development of systemic monitoring of implementation of recommendations and communication.
- The SAI will continue to train new auditors in the area of business performance, in order to ensure the implementation of an increasing number of business performance audits in the future. In addition, in order to provide additional value and benefit to citizens, further development of staff capacities in the SAI, having in mind Agenda 2030, will be focused on specific topics of audit (environmental audit, IT audit).

As regards the management of human resources, the SAI will continue its activities focused on the Human Resources Management Strategy. The dynamics of the activities will be determined by the updated Action Plan for the implementation of the Strategy.



⁴⁰ Members of the SAI Council are appointed for a period of five years, and can be elected by the Assembly only two times, pursuant to Article 20 of the Law on SAI, Official Gazette of the RS no. 101/05, 54/07, 36/10 and 44/18 – state law

⁴¹ Public Administration Principles, page 190 <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>

⁴² Public Administration Principles, page 190 <http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf>

After the mapping process is completed, it is planned to procure a custom AMS audit management software in 2019, which will be first used in 2020. The system will also contribute to rounding up the system for tracking recommendations.

The cooperation with the National Assembly will be further enhanced through the provision of professional support for taking action upon receiving the SAI report and by ensuring that there is an effective system for monitoring the implementation of recommendations. In the light of the increased number of audits of the business performance, as well as Agenda 2030, cooperation will be intensified with other National Assembly committees as well as with the Focus Group of the National Assembly for the development of mechanisms for controlling the implementation of the Sustainable Development Objectives in relation to the topics dealt with in the business performance audits.

Measure 19

TO ENHANCE PARLIAMENTARY OVERSIGHT OVER PUBLIC FINANCES

Key results achieved so far

- The Parliamentary oversight over the public finance has been improved through the establishment of the Subcommittee of the National Assembly for consideration of reports on audits performed by the State Audit Institution (hereinafter: Subcommittee) in February 2015, and appointment of new members of the Subcommittee in July 2016.
- In the third quarter of 2017, a significant progress was achieved through the adoption of the Guidelines for the work of the Subcommittee, which finalized preparatory actions for the full implementation of Measure 19.
- In order to promote the principles of accountability, transparency and efficiency of the public funds spending and to define the basis of mutual cooperation, the Memorandum of Understanding was signed between the Committee on Finance, State Budget and Control of Public Spending of the National Assembly and State Audit Institution.
- The Committee on Finance, National Budget and Control of Public Spending adopted the Guidelines for reviewing the SAI report on the audits of public funds beneficiaries at a meeting of the Committee and the Subcommittee held in Novi Sad on August 30, 2017.⁴³

⁴³ 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

| Performance indicators | 2015 | 2016 | 2017 | 2018 |
|--|------|------|-----------------|-----------------|
| Number of SAI audit reports discussed by the respective parliamentary committees | 1 | 1 | 7 ⁴⁴ | 9 ⁴⁵ |

Progress achieved in 2018

In 2018, the Committee continued with activities related to the consideration of the SAI reports in local self-government units in order to promote accountability, transparency and efficiency in spending public funds and spread awareness of the importance of the control function of the National Assembly. The Committee, together with representatives of the State Audit Institution, held two sittings outside its headquarters – in Subotica and Leskovac, where the reports of the Institution were presented.

In July 2018, at the sitting held in Subotica, in the presence of the President and members of the Council of the State Audit Institution, supreme and authorized auditors, as well as representatives of the City of Subotica the Committee reviewed the Report of the State Audit Institution on the conducted audit of the City of Subotica and the effects of the recommendations made by the SAI. At the same sitting, the Committee reviewed and, at the proposal of the Subcommittee, adopted six sectoral reports of the SAI for 2017.

At this sitting of the Committee, the representatives of the Anti-Corruption Agency spoke about anti-corruption public policies at the local level, on the competencies of the Anti-Corruption Agency, with a special focus on the registers, submitting reports on property and income, control and acting upon complaints, preventive role of the Agency, as well as the obligations of officials arising from the Law on the Anti-Corruption Agency.

At a sitting held in Leskovac in September 2018, which was also attended by the President and members of the SAI Council, the supreme and authorized auditors, as well as the representatives of the city of Leskovac, the Report on the Audit of the Consolidated Financial Statements of the Budget and Regularity of the City of

⁴⁴ The reports reviewed are: 2016 Report on the work of the Sector for Budget and Budget Funds Audit of the Republic of Serbia and the recommendations and other effects of the audits carried out in 2016; 2016 Report on the work of the Sector for the Audit of Mandatory Social Insurance Organizations and the recommendations and other effects of the audits carried out in 2016; 2016 Report on the work of the Audit Sector of the National Bank of Serbia, public agencies and other public funds beneficiaries and the recommendations and other effects of audits conducted in 2016; 2016 Report on the work of the Sector for Audit of the Local Government Budget and the recommendations and other effects of the audits carried out in 2016; 2016 Report on the work of the Sector for the Audit of Public Enterprises, Companies and other Legal Entities that public funds beneficiaries founded or have a stake in the capital or management, and the recommendations and other effects of audits carried out in 2016; 2016 Report on the work of the Sector for Business Intelligence Audit and the recommendations and other effects of the audits carried out in 2016; as well as the 2016 SAI Report.

⁴⁵ The reports reviewed are: 2017 Report on the work of the SAI; six sectoral reports: 2017 Report on the work of the Sector for Budget and Budget Funds Audit of the Republic of Serbia; 2017 Report on the work of the Sector for the Audit of Mandatory Social Insurance Organizations; 2017 Report on the work of the Audit Sector of the National Bank of Serbia, public agencies and other public funds beneficiaries; 2017 Report on the work of the Sector for Audit of the Local Government Budget; 2017 Report on the work of the Sector for the Audit of Public Enterprises, Companies and other Legal Entities that public funds beneficiaries founded or have a stake in the capital or management, and 2017 Report on the work of the Sector for Business Intelligence Audit, as well as 2015 SAI Report on the implemented audit of the City of Subotica and the effects of the recommendations made by the State Audit Institution and Report on the audit of the consolidated financial statements of the budget and regularity of operations of the City of Leskovac for and revision of 2017 response report.

Leskovac for 2015 was considered and revision of the 2017 response report.

The sittings of the National Assembly of the Republic of Serbia and sessions of all working bodies, press conferences, public hearings, the activities of the President of the National Parliament and other events, can be followed via live stream, or accessed through the archive on the website by media, interested non-governmental organizations and third parties⁴⁶.

Financing of the measure

The PFM RP does not indicate any additional amount for financing the activities of the Committee for Finance, State Budget and Control of Public Spending of the National Assembly since all activities are implemented within the existing national budget available to the Parliament, SAI and Ministry of Finance.

Key challenges in implementation

The biggest implementation challenges under the measure are associated with:

- The lack of mechanisms for the follow-up of the implementation of SAI recommendations and conclusions made by the National Assembly related to the discussion of the SAI report that still needs to be developed to improve co-operation between the SAI, Government bodies and the Parliament.

Next steps

- In its further work, the Committee will extend its efforts to develop its control function, in particular by holding sessions of the Subcommittee and Committee to review the SAI reports on audits carried out in the presence of representatives of the Institution, audit entities and, if necessary, representatives of other relevant bodies, organizations and institutions.
- The practice of holding sittings outside the headquarters, in local self-government units, will be continued. It is planned to increase the number of sittings each year, with the participation of representatives of the audited entities, representatives of the relevant ministries and representatives of other relevant bodies, organizations and institutions and, certainly, representatives of the State Audit Institution, who will review the reports of the State Audit Institution on the audit of these entities.
- It is planned to engage an expert team to provide expert support to members of the Subcommittee and/or the Committee in reviewing the audit report of the State Audit Institution. The expert team would comprise professors at faculties of economics, representatives of the Audit Office of the EU funds, the Chamber of certified auditors of Serbia, the Association of Internal Auditors of Serbia, as well as representatives of SIGMA, GIZ and the EU Delegation in Belgrade.



⁴⁶ <http://www.parlament.gov.rs/activities/national-assembly/working-bodies/public-hearings.3016.html>



Conclusions

Major challenges in most cases are still of a technical nature and related to delays in the adoption of strategic documents, and primary and secondary legislation due to long internal and interinstitutional consultations on the wording of documents. What also poses a challenge is the strengthening of administrative capacities, which received great attention in 2018.

Therefore, the conclusion of all relevant parties participating in the process of developing and monitoring the implementation of the Programme, together with the European Commission, is that it is necessary to revise the Programme and the accompanying Action Plan. The process of drafting the new Action Plan for the period 2019-2021 began in May 2018. The Action Plan is expected to enhance the focus on performance, improve prioritization and order of activities, as well as advance assessment of the financial effects and adequate linkage with the relevant strategic documents.

The Programme was improved by the Ministry of Finance and the Working Group of the PFM RP comprising the competent departments of the ministries and the Governmental bodies, as well as the SAI and the National Assembly of the Republic of Serbia. As before, SIGMA project provided strong backing to this process.

At the third meeting of the Dialogue on Public Financial Management Policy, held in Belgrade on March 18, 2019, with representatives of the European Commission, donor community and civil society, the progress was presented in the implementation of the Programme in 2018 as well as draft revised Programme and accompanying draft Action Plan for the period 2019-2021. On this occasion, representatives of the National Convention on the EU announced that, in accordance with the good practice established within public consultations on the Economic Reform Programme, a mechanism for oversight, evaluation and monitoring in the field of public finance reform would be established based on the same methodology. The draft revised Programme was submitted to the European Commission in February 2019.



March 2019



REPUBLIC OF SERBIA
MINISTRY OF FINANCE